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FOREIGN SERVICE DESPATCH

FROM : AMCONSUL DHAHRAN

129

TO : THE DEPARTMENT OF STATE, WASHINGTON.

DECEMBER 2, 1961

REF : CONGEN DESPATCHES III (II/II/61), II3 (II/9/61), DEC. 06 1961  
II4 (II/I4/61), II5 (II/I5/61). NEA 886a.2553/11-96

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SUBJECT: SAUDI ARABIAN GOVERNMENT ADMINISTRATION IN AND NEAR THE SAUDI ARABIA-KUWAIT NEUTRAL ZONE; SAUDI-KUWAITI CONFLICT OF JURISDICTION.

SUMMARY

SAUDI ARABIAN GOVERNMENT ADMINISTRATION IN THE SAUDI-KUWAIT NEUTRAL ZONE, IS ONLY MEDIOCRE. THE HIGHEST OFFICIAL, AMIR SALIH IBN 'ABD ALLAH IBN 'UTAIHAN, IS FAIR AND REASONABLE BUT UNABLE OR UNWILLING TO KEEP OTHER SAUDI OFFICIALS IN THE AREA UNDER CONTROL. TO DATE NO SERIOUS PROBLEMS HAVE ARISEN WITH RESPECT TO CONFLICT OF JURISDICTION BETWEEN SAUDI AND KUWAITI POLICE FORCES IN THE ZONE. PLANS ARE UNDERWAY TO LOCATE CUSTOMS OFFICIALS AT RAS AL MISHAB AND THE SAUDI GOVERNMENT IS CONSIDERING THE ESTABLISHMENT OF CUSTOMS, PUBLIC SECURITY AND COAST GUARD OFFICES AT SAFANIYA.

BACKGROUND

I) THE SAUDI ARABIAN-KUWAIT NEUTRAL ZONE IS AN AREA IN WHICH BOTH GOVERNMENTS SHARE CONTROL THROUGHOUT THE ZONE. THE SAUDI AUTHORITIES ARE CONCERNED WITH OIL COMPANIES AND PERSONNEL OPERATING UNDER A SAUDI CONCESSION AGREEMENT (GETTY OIL COMPANY), THE KUWAITI AUTHORITIES ARE CONCERNED WITH THE OIL COMPANY AND PERSONNEL OPERATING UNDER A KUWAITI CONCESSION AGREEMENT (AMERICAL INDEPENDENT OIL COMPANY) AND BOTH GOVERNMENT AUTHORITIES ARE CONCERNED WITH THE COMPANY

WM McCLELLAND:AG

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FORM 6-61 FS-439 GPO 912596

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ACTION	ACTION	
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OPERATING UNDER A JOINT CONCESSION (ARABIAN OIL COMPANY (JAPAN).)

2) IN GENERAL, THE ZONE IS CLOSELY ORIENTED TOWARD KUWAIT. PERSONNEL ENTER AND LEAVE THE ZONE VIA KUWAIT AND NO SAUDI VISAS ARE NECESSARY, EVEN FOR GETTY PERSONNEL. THERE IS NO KUWAITI BORDER CONTROL BETWEEN KUWAIT AND THE ZONE AND TRAFFIC PASSES FREELY BACK AND FORTH DAILY; THERE ARE SAUDI COAST GUARD AND CUSTOMS POSTS BETWEEN SAUDI ARABIA AND THE NEUTRAL ZONE, HOWEVER, TO PREVENT SMUGGLING AND COLLECT SAUDI DUTIES. BECAUSE OF THE BETTER KUWAITI ADMINISTRATION, AND ALCOHOL LICENSES, FOREIGNERS IN THE ZONE PREFER TO ORIENT THEMSELVES TOWARD KUWAIT AS MUCH AS POSSIBLE. VIRTUALLY ALL AUTOMOBILES ARE REGISTERED IN KUWAIT AND THE PORT OF KUWAIT IS USED FOR MANY OF THE INCOMING AND OUTGOING CARGOES.

SAUDI OFFICIALS IN THE ZONE

(A) AMIR AT MINA SAUD

3) THE HIGHEST SAUDI OFFICIAL IN THE NEUTRAL ZONE IS AMIR SALIH IBN 'ABD ALLAH IBN 'UTAISHAN, LOCATED AT MINA SAUD. BEFORE HIS POSTING TO THE NEUTRAL ZONE AMIR SALIH WAS AMIR OF RAS TANURA, EASTERN PROVINCE, WHERE HE ESTABLISHED A GOOD REPUTATION AS GENERALLY FAIR, COOPERATIVE AND REASONABLE. AMIR SALIH REPORTS TO HH AMIR SA'UD IBN 'ABD ALLAH IBN JILUWI, GOVERNOR OF THE EASTERN PROVINCE.

4) UNFORTUNATELY, AMIR SALIH DOES NOT SEEM TO HAVE WIDE AUTHORITY OVER OTHER SAUDI LOCAL GOVERNMENT OFFICIALS IN THE ZONE. WHEREAS THE AMIR SA'UD'S WORD IS LAW IN THE EASTERN PROVINCE AND THE ZONE AS WELL, AMIR SALIH APPEARS NOT TO HAVE THE AUTHORITY OR DESIRE TO KEEP THESE OFFICIALS IN LINE OR TO EFFECT THEIR REMOVAL. THUS HE IS PRINCIPALLY USED AS A POINT OF CONTACT FOR THE AMIR SA'UD, THE TITULAR HEAD OF SAUDI GOVERNMENT IN THE ZONE, AND A CHANNEL WHEREBY DISGRUNDED SAUDI GOC AND AOC WORKERS CAN BRING THEIR GRIEVANCES TO COMPANY MANAGEMENT.

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From AMCONSUL DHAHRAN

(B) QADI (JUDGE)

5) VYING FOR TOP POSITION WITH THE AMIR IS THE QADI AT MINA SAUD. FRESH FROM HIS STUDIES, YOUNG HR SHAIKH ABDUL AZIZ AL MUBARAK AL FAISAL HAS BROUGHT SHARIAH LAW TO THE ZONE WITH A VENGEANCE. HE IS SAID TO COME FROM A PROMINENT RIYADH FAMILY WITH CLOSE CONNECTIONS TO THE INNER CIRCLE OF SAUDI CONSERVATIVE MUSLIMS. HE WAS THE JUDGE IN THE TRIAL OF MRS. DONALD HUTTON, GETTY ZONE MANAGER, WHO WAS ACCUSED OF DEFAMING ISLAM. AS A RESULT OF THE SITUATION DESCRIBED IN CONGEN DESPATCH 113, THE QADI AND OTHER SAUDI OFFICIALS MORE OR LESS TRUMPED UP THE CASE. THE TRIAL WAS A TRAVESTY OF JUSTICE, ACCORDING TO ALL AMERICANS WHO ATTENDED IT, AND AFTER IT WAS COMPLETED THE QADI AT MINA SAUD ORDERED THE LASHING PUNISHMENT OF MRS. HUTTON CONTRARY TO THE NORMAL PRACTICE OF SHARIAH COURTS WHEN CHRISTIANS ARE INVOLVED.

6) SHAIKH ABDUL AZIZ APPEARS TO BE A QUIET LEARNED YOUNG MAN. IN A CONVERSATION WITH THE REPORTING OFFICER HE DISPLAYED ALMOST NO KNOWLEDGE OF ANY LEGAL SYSTEM OUTSIDE SHARIAH LAW BUT SEEMED INTERESTED IN SOME IDEAS ON CONFLICTS OF LAWS. WHEN ASKED A DIRECT QUESTION CONCERNING APPLICATION OF SHARIAH PUNISHMENTS TO CHRISTIANS, HE STATED THAT THE PERSONNEL OF THE OIL COMPANIES COME UNDER THE LOCAL LAW AND THEREFORE ARE SUBJECT TO THE SAME PENALTIES. HOWEVER, HE WENT ON TO SAY THAT CERTAIN FOREIGNERS CONSIDERED SUCH PUNISHMENT AS LASHING TOO HARSH AND IN THOSE CASES THE SENTENCE WOULD BE CHANGED TO DEPORTATION OR A FINE. THE DEPARTMENT WILL RECALL THAT IN MRS. HUTTON'S CASE THE QADI'S SENTENCE OF LASHING WAS CHANGED ONLY IN RIYADH -- BUT IT IS HOPED THAT HE IS NOW MORE FAMILIAR WITH CONDITIONS IN THE OUTSIDE WORLD AND SENTIMENTS OF HIGHER AUTHORITY WITH RESPECT TO THESE PUNISHMENTS.

(C) LABOR DELEGATE

7) THE REPRESENTATIVE OF THE MINISTRY OF LABOR AND SOCIAL AFFAIRS, SAYYID KHALID HUMAIDAN, IS KNOWN AS LABOR DELEGATE OR OFFICER. HE HAS BEEN ASSIDUOUS IN BRINGING PRESSURES ON THE OIL COMPANIES TO HIRE SAUDIS, PROHIBIT OVERTIME WORK, AVOID THE USE OF LABOR CONTRACTORS, AND SETTLE INDIVIDUAL WORKERS' GRIEVANCES TO THE LATTER'S SATISFACTION MORE OR LESS REGARDLESS OF THE PROVISIONS OF THE SAUDI LABOR REGULATIONS. HE WAS ONE OF THE

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From AMCONSUL DHAHRAN

INSTIGATORS OF COMPANY HARRASSMENT BY LOCAL SAUDI OFFICIALS DESCRIBED IN CONGEN DESPATCH 113. AT PRESENT, HOWEVER, HE SAYS HE ENJOYS GOOD RELATIONS BOTH WITH GOC AND AOC PERSONNEL AND THAT HE HAS NO REAL PROBLEMS WITH THEM.

(D) PUBLIC SECURITY AND PASSPORTS

8) CAPTAIN 'ABBAS MUHAMMAD MUWAIS IS THE SAUDI CHIEF OF POLICE AT MINA SAUD. HE HAS AUTHORITY OVER ALL SAUDI POLICE IN THE ZONE: 35 AT MINA SAUD, II AT WAFRA, AND II AT KHAFJI. CAPTAIN MUWAIS HAS ONLY BEEN IN THE NEUTRAL ZONE FOR A FEW WEEKS AND NO COMPLAINTS WERE HEARD AGAINST HIM. HE RECEIVED THE REPORTING OFFICER CORDIALLY AND WAS OBVIOUSLY PLEASED WITH THE CALL. HE GAVE NO PARTICULAR INFORMATION ABOUT HIS WORK EXCEPT TO STATE THAT HE SPLIT HIS TIME ABOUT EVENLY BETWEEN MINA SAUD AND KHAFJI; HE WAS ALSO EXPECTING SOME ADDITIONAL POLICE SHORTLY.

SAYYID IBRAHIM AL-YEMENI IS THE NEW PASSPORT OFFICER. HIS DUTIES DO NOT APPEAR TO BE ONEROUS AS MOST OF HIS WORK CONSISTS OF ENDORSING PASSPORTS OF PERSONS UNDER SAUDI JURISDICTION WHO HAVE ALREADY ENTERED THE NEUTRAL ZONE BY WAY OF KUWAIT.

(E) COAST GUARD

9) ACCORDING TO AMIR SALIH AL 'UTAISHAN THERE ARE TWO SAUDI COAST GUARDSMEN AT THE PIER AT MINA SAUD AND 16 AT KHAFJI. AOC OFFICERS, HOWEVER, GIVE THE KHAFJI FIGURE AT 25 AND THIS IS BELIEVED MORE RELIABLE.

(F) POSTS, TELEPHONES AND TELEGRAPHS

10) LOCAL REPRESENTATIVES OF THE DIRECTORATE GENERAL OF POSTS, TELEPHONES, AND TELEGRAPHS ARE LOCATED AT MINA SAUD. THE SENIOR OFFICER IS SAYYID NASIR AL MAGLOUTH WHO IS PRIMARILY RESPONSIBLE FOR TELEPHONES AND TELEGRAPHS. SAYYID AL 'ABAD IS RESPONSIBLE FOR POSTS.

IF) DURING A CONVERSATION THE LOCAL OFFICERS STATED THAT VIRTUALLY ALL MAIL AND TELEGRAPH TRAFFIC FROM THE NEUTRAL ZONE WAS THROUGH KUWAIT, EXCEPT THAT ADDRESSED TO SAUDI ARABIA. ALTHOUGH SAUDI MAIL WAS BEING SENT ONLY TWICE A WEEK TO DHAHRAN FOR FURTHER TRANSMISSION, A FUTURE SERVICE OF DAILY MAIL TO DAMMAM WAS PLANNED TO TAKE

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INTERNATIONAL AIR MAIL CARRIERS OUT OF DHAHRAN. A WIRELESS TRANSMITTER HAD BEEN SET UP TO SEND TRAFFIC TO DAMMAM, BUT IT WAS NOT PRESENTLY IN REGULAR USE. BOTH OFFICERS EXPRESSED THE HOPE THAT GOC WOULD CHANGE ITS POLICY AND USE SAUDI FACILITIES IN THE NEAR FUTURE. COMMENT: IT IS LIKELY THAT THE SAUDI GOVERNMENT WILL SHORTLY BRING PRESSURE ON THE COMPANY TO DO SO.

(G) OTHER OFFICES

12) THE REPORTING OFFICER IS NOT AWARE OF ANY ADDITIONAL SAUDI OFFICIALS IN THE NEUTRAL ZONE, BUT WAS INTERESTED TO NOTE THAT THE RIYADH BANK HAD ESTABLISHED A BRANCH AT MINA SAUD. MR. OMAR SERRAJ, MANAGER, EXPLAINED THAT THE BANK HAS BEEN GRANTED A SAUDI MONOPOLY TO OPERATE IN THE ZONE AND THAT IT WAS DOING A SUBSTANTIAL BUSINESS BOTH WITH THE OIL COMPANIES AND KUWAITI BUSINESSMEN WHO WANTED TO USE THE BANK'S FACILITIES. A NEW BANK BUILDING AND QUARTERS FOR PERSONNEL WOULD BE ERECTED SHORTLY AND NEW BRANCHES WERE PLANNED FOR WAFRA AND KHAFJI.

KUWAITI ADMINISTRATION

13) THE PROXIMITY OF THE ZONE TO KUWAIT HAS RESULTED IN FEWER KUWAITI OFFICIALS THERE AND MORE RELIANCE ON HIGHER KUWAIT GOVERNMENT OFFICIALS (IN KUWAIT) IN MATTERS OF IMPORTANCE TO AMINOIL. FOR EXAMPLE, THE HIGHEST KUWAITI OFFICIAL IN THE ZONE IS AMIR SALEM ABU HADIDA, LOCATED JUST OUTSIDE THE AMINOIL CAMP AT WAFRA. HE HAD A LOCAL FORCE OF ABOUT TWENTY GHAWIYYA (GUARD FORCE) AT WAFRA, EIGHT MORE AT THE AMINOIL-GETTY JOINT OPERATIONS CENTER, AND SIXTEEN AT KHAFJI (ARABIAN OIL COMPANY). AS FAR AS IS KNOWN, THIS IS THE ENTIRE KUWAITI FORCE AND ADMINISTRATION IN THE ZONE.

CONFLICTS OF JURISDICTION

14) THE PRESENCE OF TWO POLICE AUTHORITIES IN THE NEUTRAL ZONE WOULD SEEM TO BE LIKELY TO LEAD TO FRICTION BETWEEN THEM AND RESULT IN A VERY UNSATISFACTORY SITUATION. IN FACT, HOWEVER, BOTH SAUDI AND KUWAITI OFFICIALS IN THE ZONE STATE THAT THE TWO AUTHORITIES COOPERATE WELL AND THAT CONFLICTS OF JURISDICTION ARE VIRTUALLY NON-EXISTENT.

15) THE BASIS FOR THE PRESENT ARRANGEMENT SEEMS TO HAVE BEEN LAID DOWN BY THE KUWAITI AUTHORITIES, PUSHED BY THE AMINOIL OFFICIALS. THEY HAVE TAKEN THE POSITION THAT

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SAUDI AUTHORITIES HAVE NO JURISDICTION OVER ANY OF THE AMINOIL EMPLOYEES, SAUDI OR NON-SAUDI. IN ONE OR TWO INSTANCES THE KUWAITI AMIR, SALEM ABU HADIDA, HAD TO GO TO SAUDI AUTHORITIES AND "POUND ON THE TABLE" BUT HE OBTAINED CUSTODY OF THE AMINOIL EMPLOYEES. (AMIR SALEM HAS BEEN WITH AMINOIL IN THE ZONE FOR ABOUT 15 YEARS AND REFERS TO THE COMPANY AS "MY COMPANY.") GETTY OIL COMPANY EMPLOYEES ARE UNDER SAUDI JURISDICTION. IN ANY CASE IN WHICH THE GUILTY PERSON CANNOT BE READILY ASCERTAINED, BOTH AUTHORITIES CONDUCT A JOINT INVESTIGATION AND, IF TRIALS RESULT, EACH AUTHORITY TRIES PERSONNEL UNDER ITS JURISDICTION. THE SAME PROCEDURE IS USED WITH RESPECT TO THE EMPLOYEES OF THE ARABIAN OIL COMPANY (JAPAN) WHICH COMES HALF UNDER THE JURISDICTION OF SAUDI ARABIA AND HALF UNDER KUWAIT. SO FAR THERE HAVE BEEN NO UNSOLVABLE PROBLEMS, BUT WITH ALCOHOL LEGAL FOR NON-MUSLIMS IN KUWAIT AND ILLEGAL IN SAUDI ARABIA THERE ARE ALMOST CERTAIN TO BE DIFFICULTIES IN THE FUTURE.

But how  
is this?  
divided?

SAUDI OFFICIALS NEAR THE NEUTRAL ZONE

16) IT IS WORTHY OF NOTE THAT THE AMIRS OF THE NEUTRAL ZONE AND ADJACENT AREAS ARE ALL OF THE SAME FAMILY. THREE BROTHERS, AMIRS TURKI, SALIH, AND MUHAMMAD IBN 'ABD ALLAH IBN 'UTAISHAN ARE AMIRS OF RAS TANURA, THE NEUTRAL ZONE, AND QARYAT AL-'ULYA RESPECTIVELY. IN ADDITION MUHAMMAD'S SON, 'ABD ALLAH, IS AMIR OF SAFANIYA.

17) THE OPENING OF THE COAST ROAD FROM KHAFJI TO RAS AL MISHAB MADE IT NECESSARY FOR THE SAUDI GOVERNMENT TO CONSIDER LOCATING CUSTOMS OFFICIALS AT RAS AL MISHAB. AT PRESENT, HOWEVER, ONLY TWO COAST GUARDSMEN ARE LOCATED THERE.

18) THE ARAMCO LOCAL GOVERNMENT RELATIONS REPRESENTATIVE AT NARIYAH GAVE THE FOLLOWING LIST OF SAUDI OFFICIALS IN THE VICINITY:

SAFANIYA: AMIR -- AMIR 'ABD ALLAH IBN MUHAMMAD AL 'UTAISHAN

POLICE OFFICER -- SECOND LT. YAHIAH MANI 'ASIRI

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SAFANIYA: SUPERVISOR OF POSTS & WIRELESS -- SALIH AL 'ARADHI  
CHIEF OF COAST GUARD -- SULAYIM IBN 'AGIL  
(HE HAS 30 COAST GUARDSMEN UNDER HIM)  
PASSPORT OFFICER - IBRAHIM IBN 'ALI  
HEAD OF RELIGIOUS -- MUHAMMAD AL HUDAITHI  
COMMITTEE

NARIYAH: AMIR -- MUBARAK BIN HAMAD AL-NIMSHAN  
QADI -- SHAIKH AHMAD IBN 'ABD AL-LATIF  
DIRECTOR OF CUSTOMS -- SHAIKH MUHAMMAD AL-TAYYIB  
POLICE CHIEF: MUFARAH BIN 'ABD ALLAH AL-NUFA'ATH  
SUPERVISOR OF POSTS & WIRELESS -- SA'AD AL-SAIF  
HEAD OF RELIGIOUS COMMITTEE - ABDULLAH IBN JAMHOOR  
PASSPORT OFFICER -- SALEH AL-'AGEL

19) THE ARABIAN AMERICAN OIL COMPANY IS UNDERTAKING EXTENSIVE CONSTRUCTION PROJECTS TO INCREASE OIL PRODUCTION FROM THE SAFANIYA FIELD, ONLY A SHORT DISTANCE FROM RAS AL MISHAB AND THE ARABIAN OIL COMPANY OFFSHORE FIELD. ALTHOUGH THIS INCREASED ACTIVITY AT SAFANIYAH IS EXPECTED TO LAST ONLY A FEW MONTHS, OTHER CONSTRUCTION ACTIVITY IN THE NEIGHBORING FIELDS OF MANIFA, ABU HADRIYAH AND KHURSANIYAH IS PLANNED IN THE COURSE OF THE NEXT TWO OR THREE YEARS. SAUDI CUSTOMS, COAST GUARD AND PUBLIC SECURITY OFFICIALS HAVE VISITED THE AREA AND ARE UNDERSTOOD TO BE PLANNING OFFICES (INCLUDING A NEW CUSTOMSHOUSE) AT OR NEAR SAFANIYA. ARAMCO, HOWEVER, IS OPPOSING THE ESTABLISHMENT OF ANY NEW SAG OFFICES UNTIL IT CAN REVIEW THE FUTURE REQUIREMENTS IN THE AREA AND FORMULATE A RECOMMENDATION TO THE SAUDI GOVERNMENT FOR THE LOCATION OF OFFICES WHICH WILL BETTER SERVE THE AREA GENERALLY OVER A LONGER PERIOD RATHER THAN

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JUST THE SAFANIYA AREA. AT PRESENT, THEREFORE, THERE ARE  
NO FIRM PLANS FOR NEW SAG OFFICES IN THE SAFANIYA AREA,  
AND THE SUBJECT WILL PROBABLY REMAIN UNDER DISCUSSION  
BETWEEN THE COMPANY AND SAG FOR SEVERAL MONTHS.

FOR THE CONSUL GENERAL

  
WALTER M. McCLELLAND  
AMERICAN CONSUL

Cc: AMEMBASSY JIDDA

DEPT. PLEASE PASS TO:  
KUWAIT, LONDON, BEIRUT

  
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By JS NARA Date 3/5/02



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# DEPARTMENT OF STATE INSTRUCTION

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NO: CW-4634 December 5, 1961

SUBJECT: Responsibility of Kuwait Embassy for Saudi Arabia-Kuwait Neutral Zone

REF: Dhahran's Despatch No. 111, November 8, 1961; Despatch No. 113, November 9, 1961; Despatch No. 115, November 15, 1961

TO: Amconsul DHAHRAN  
AmEmbassy KUWAIT

INFO: AmEmbassy JIDDA

The Department encourages officers in the field to make trips into surrounding areas for familiarization purposes whenever possible and is pleased that an officer of the Consulate General at Dhahran was able recently to visit the Neutral Zone. As the Consulate General undoubtedly knows, the Embassy at Kuwait continues to have both consular and reporting responsibilities for the whole Saudi Arabian-Kuwaiti Neutral Zone. It is assumed that trips by Consulate General personnel to the Neutral Zone, as well as reports on the subject, are coordinated with the Embassy at Kuwait.

The Department suggests that the Embassy at Kuwait might wish to increase the volume and scope of its reporting on the Saudi Arabian-Kuwaiti Neutral Zone.

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NEA:NE:TWSeelye:lm:12/4/61

CLEARANCES:

MR. M. M. Strong

L/NEA - Mr. Hewitt (subs)

FORM DS-972

3-61

CONTENTS AND CHANGES APPROVED BY:

NE - Robert C. Strong

NEA/EX - Mr. Middleton

REP - Miss Mitchell (subs)

O - Mr. Appling (subs)

S/S-SC

DEC 5 1961 PM

GPO 908028

Circular 4634

886a.2553/12-561

NR 686a.862  
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FOREIGN SERVICE DESPATCH

886a. 2553/12-1461

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NO.

December 14, 1961

FROM : American Embassy, JIDDA

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP, D-15; Cairo despatch #239, November 9, 1961

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REC'D	1-10			3	3	11	3	5			3				

SUBJECT: PETROLEUM: Local Reaction to Pan American Oil Company's Hadramaut Concession Agreement  
London - 1  
Dhahran - 1

BEGIN UNCLASSIFIED

The recent signing of an oil concession agreement between Pan American International Oil Company and the Qu'iti and Kathiri sultanates has occasioned considerable interest in Jidda. The following occurrences may be noted:

(1) A front page headline in the Mecca daily paper Al-Nadwa on November 21 proclaimed "The First Agreement of its Sort in the World". The article below the headline emphasized the 55-45 profit split provision of the Pan American-Hadramaut agreement and the government's option to participate up to 20 per cent in the operating company, with mention also made of provisions concerning relinquishment, natural gas, refining and the life of the concession.

(2) Al-Nadwa on November 22 published on an inside page a lengthy resume of the concession agreement based on information from Mr. Samir SHAMMA, a Jidda lawyer who participated in the Mukalla negotiations as an adviser to the two sultans. The facts given were along the lines of those in Cairo's despatch #239, November 9.

(3) The Hadrami community in Jidda entertained a cross-section of the city's businessmen, Saudi government officials and diplomats at a November 30 afternoon tea in a downtown hotel. The party was in honor of Mr. Shamma for his role in the concession negotiations, and he contributed a short speech in which he mentioned that Pan American would begin drilling in the very near future. A local Hadrami merchant delivered an address at the reception stressing appreciation for King SAUD's unstinting helpfulness toward the Hadramis living in Saudi Arabia and for his assistance (not specified) during the negotiations. The Embassy was represented at

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From Jidda

this tea, which received a lengthy write-up on the front page of al-Nadwa the following day.

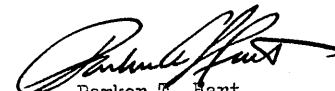
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Being aware of the unsettled Saudi-Aden Protectorate boundary claims and of Aramco's interest in future Pan American Oil Company activities in the area north of the Hadramaut valley, I spoke with an Aden Protectorate official in early October 1961 about the Pan American concession. The opportunity to inquire arose during my brief stopover in Aden while returning from Yemen to Jidda. Mr. Alastair McINTOSH, Protectorate Secretary, replied that Pan American would soon be engaged in oil exploration. When I asked whether he expected any overlap of claims with Aramco's concession area, he replied in the negative, then amended his remark to indicate there might be a small one. The concession would be granted, he said, on the basis of the 1935 line. "This is our line and of course we'll defend it" were his words as near as I can recall them. I did not pursue the subject with McIntosh, but it was obvious that he was referring to the British 1935 line rather than "Fuad Hamza's Line" proposed the same year by the Saudis. Judging from this brief episode, the possibility exists of some future exacerbation of the boundary situation in this area due to Pan American's exploration activities.

I am informed however, that the Saudi Government maintains a police post north of the line which the Aramco exploration party crossed with its consent in 1955 and from which Aramco's party was expelled by the Aden Government, leaving behind its equipment. SAG's posture appears to be one calculated to avoid trouble with the UK pending the outcome of its efforts via Azzam to reach a face-saving accommodation on Buraimi and other boundary questions.

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Parker T. Hart

cc: Aden

Dept pass London and Dhahran

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FROM : AMCONSUL DHAHRAN 141 NO

TO : THE DEPARTMENT OF STATE, WASHINGTON. DATE DECEMBER 14, 1961

REF : ADEN DESPATCH 229, APRIL 3, 1961. CERP: D-15. DEC. 20 1961

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		12-23			3	11	3	5			3					

SUBJECT: PETROLEUM - CITIES SERVICE TO TRY AGAIN IN DHOFAR WITH JOHN NECOM.

DURING THEIR TRIP TO MUSCAT, OFFICERS OF THE CONSULATE GENERAL HEARD FROM AT LEAST TWO SOURCES THAT CITIES SERVICE HAS DECIDED TO DRILL ONE MORE EXPLORATORY WELL IN DHOFAR. AN EMPLOYEE OF PETROLEUM DEVELOPMENT (OMAN) STATED THAT JOHN NECOM HAD AGREED TO PARTICIPATE.

*John Evarts Horner*  
JOHN EVARTS HORNER  
AMERICAN CONSUL GENERAL

Cc: AMEMBASSIES LONDON, JIDDA, BEIRUT  
AMCONSUL ADEN

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By JCS NARA Date 3/5/02

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HANDLING INDICATOR  
**FOREIGN SERVICE DESPATCH**

FROM : AMCONSUL DHAHRAN I45

TO : THE DEPARTMENT OF STATE, WASHINGTON. DATE: DECEMBER 18, 1961

REF : CERP D-I5; CONGEN DESPATCH 269, (4/25/61).

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SUBJECT: PETROLEUM -- SAFANIYA PIPELINE LOOP RAISES CAPACITY TO 315,000 BARRELS PER DAY.

ACCORDING TO THE NOVEMBER 29, 1961, ISSUE OF THE ARAMCO WEEKLY, SUN AND FLARE, THE FIRST PHASE OF THE SAFANIYA EXPANSION PROGRAM WAS COMPLETED NOVEMBER 22 WITH THE PLACING OF A 24-INCH PIPELINE LOOP EXTENDING TWELVE MILES INTO THE GULF ON STREAM. THIS BRINGS CAPACITY TO 315,000 BARRELS PER DAY. THE SECOND PHASE, ADDING ANOTHER 15,000 BARRELS PER DAY OF CAPACITY, IS ALREADY APPROACHING COMPLETION.

THE ARTICLE FROM THE SUN AND FLARE, WHICH INCLUDES A DESCRIPTION OF THE TESTING AND FLUSHING PROCESS NECESSARY BEFORE THE LINE IS READY FOR OPERATION, IS ENCLOSED.

John Evarts Horner  
JOHN EVARTS HORNER  
AMERICAN CONSUL GENERAL

ENCLOSURE: *W*

COPY OF AN ARTICLE FROM  
THE NOVEMBER 29, 1961,  
ISSUE OF SUN AND FLARE.

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(Classification)

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Encl. No. I  
Desp. No. 145  
From DHAHRAN

THE FOLLOWING IS A COPY OF AN ARTICLE FROM THE  
NOVEMBER 29, 1961, ISSUE OF THE ARAMCO WEEKLY, SUN AND  
FLARE.

SAFANIYA TRUNK LINE LOOP PLACED ON STREAM NOV. 22

THE 24-INCH SAFANIYA PIPELINE LOOPING THE OFFSHORE  
TRUNKLINE WAS TIED IN AND PLACED ON STREAM LAST WEDNESDAY  
AFTERNOON. THE NEW LINE WHICH EXTENDS FROM OFFSHORE  
PLATFORM No. 1 TO PLATFORM No. 7, APPROXIMATELY 12 MILES  
OUT INTO THE GULF, INCREASES THE SAFANIYA PRODUCING POTENTIAL  
FROM 270,000 BARRELS PER DAY TO 315,000 BPD.

FLUSHING OF THE NEW LINE, WHICH HAD BEEN FILLED WITH  
SALT WATER FOR TESTING PURPOSES, BEGAN AT APPROXIMATELY  
2 P.M. WITH THE INTRODUCTION OF CRUDE OIL INTO THE LINE  
TO DISPLACE THE SALT WATER. THE WATER WAS EMPTIED FROM  
THE LINE AT THE SAFANIYA GOSP, WHERE SPECIAL LINES CARRIED  
IT BACK INTO THE GULF. WITH THE BEGINNING OF THE INTER-  
PHASE--THE POINT AT WHICH THE SALT WATER AND CRUDE ARE  
MIXED TOGETHER--THE SALTY CRUDE WAS DIVERTED TO A PIT DE-  
SIGNATED TO RECEIVE THIS MIXTURE.

SAMPLES OF THE SALT WATER AND CRUDE MIXTURE WERE TAKEN  
AT REPEATED INTERVALS TO DETERMINE THE SALT CONTENT OF THE  
CRUDE (SALES CONTRACTS REQUIRE THAT THE CRUDE OIL TEST NO  
GREATER THAN TEN POUNDS OF SALT PER 1,000 BARRELS OF OIL.)  
THE INTERPHASE PERIOD BEGAN AT APPROXIMATELY 5 P.M., AND  
AT 6 P.M. THE MIXTURE TESTED AT TEN POUNDS OF SALT PER  
1,000 BARRELS OF OIL. BETWEEN 6 AND 6:45 P.M. TEN TESTS  
SHOWED A RANGE OF FROM TEN DOWN TO TWO POUNDS OF SALT PER  
1,000 BARRELS, AND AT THIS TIME THE CRUDE WAS DIRECTED TO  
THE SAFANIYA GOSP FOR SHIPMENT TO RAS TANURA.

AT RAS TANURA ALSO TESTS WERE CONDUCTED TO CROSS CHECK  
THE DEGREE OF SALT CONTAMINATION, AND THE HIGHEST SALT  
CONTAMINATION, AND THE HIGHEST SALT PERCENTAGE RECORDED  
WAS 5.5 POUNDS PER 1,000 BARRELS.

DURING THE TIE-IN FLUSHING PROGRAM ON THE LOOP LINE

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Desp. No. 145  
From DHAHRAN

LAST WEDNESDAY, A MINOR LEAK WAS DISCOVERED AT No. I PLATFORM. DIVERS DETERMINED THAT THE LEAK WAS AT THE RELATIVELY NEGLIGIBLE RATE OF ABOUT TWO GALLONS EVERY 24 HOURS. INCLEMENT WEATHER, HOWEVER, FORCED A STOPPAGE OF ALL DIVING ACTIVITY AT THE SITE LATE LAST WEDNESDAY AFTERNOON. DIVERS RETURNED TO THE PLATFORM LAST MONDAY AND STOPPED THE LEAK. THE LINE WAS INSPECTED AGAIN YESTERDAY, AND NO INDICATION OF FURTHER LEAKAGE WAS FOUND.

WORK HAS ALREADY BEEN STARTED ON THE SECOND PHASE OF THE PROGRAM TO INCREASE SAFANIYA PRODUCTION. AN EXTENSION OF THE TRUNKLINE LOOP HAS BEEN LAID FROM PLATFORM No. 7 TO PLATFORM No. 8, CONNECTING TWO ADDITIONAL PRODUCING WELLS, NOS. 31 AND 32 IN THE SAFANIYA FIELD. THIS LINE, WHICH WILL INCREASE SAFANIYA PRODUCTION CAPACITY BY ABOUT 15,000 BPD, MUST NOW BE TESTED AND FLUSHED BEFORE IT CAN BE PLACED ON STREAM.

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PAGE I OF I PAGES

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Date Sent: December 20, 1961

Rec'd: 8862,2553/12-2061

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Info

FROM: AMCONSUL DHAHRAN

RM/R-2

TO: SECSTATE WASHINGTON

INR-8

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NO: A-33

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INFO: AMEMBASSIES JIDDA A-25

BAGHDAD A-5 AMCONSUL KHORRAKS-

INT-5

CIA-15

BEIRUT A-15

TEHRAN A-2

HAHR A-1

Com-6

ARMY MA1

KUWAIT A-7

CARACAS A-2

OSD-20

NAVY-4

AIR-2

TAR-2

ACCORDING TO ARAMCO'S GOVERNMENT RELATIONS DEPARTMENT, TARIKI RECENTLY SENT LETTER TO ARAMCO CONFIRMING SAG POSITION NOT ACCEPTING CRUDE PRICE REDUCTION OF AUGUST 1960 AND CLAIMING ARAMCO OWES SAG 22 MILLION DOLLARS SO FAR ON THIS ACCOUNT.

COMMENT: MOVE MAY BE CO-ORDINATED OPEC OR INDIVIDUAL ATTEMPT PREPARE FOR POSSIBLE LATER OPEC ACTION THIS SUBJECT. ON OTHER HAND MAY BE BEGINNING OF CLAIM WHICH GROWS AND GROWS WITHOUT SETTLEMENT, COMPARABLE SIDON CLAIM. END COMMENT.

ACCORDING ACTING CHIEF ARAMCO'S ECONOMICS DEPARTMENT (PROTECT SOURCE), ESTIMATED FALL IN ARAMCO'S PRODUCTION TO 1,280,000 BPD IN 1962 AND 1,380,000 BPD IN 1963 WAS EXPLAINED TO TARIKI AND WAHBA DURING OCTOBER BOARD DIRECTORS MEETING AS RESULT ZELTEN PRODUCTION, ESTIMATED AT 125,000 BPD 1962, AND SAUDI ARABIA'S REFUSAL PERMIT TRADING COMPANIES, WHICH SENT 60,000 BPD CONTRACT BEGINNING 1962 TO KUWAIT RATHER THAN SAUDI ARABIA.

HORNER

SCKEITER:AG

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FROM :	AMCONSUL DHAHRAN	151		NO.	
TO :	THE DEPARTMENT OF STATE, WASHINGTON.	DECEMBER 21, 1961		DATE	
REF :	CERP D-15; CONGEN DESPATCH 81, (9/25/61)	JAN. 03 1962		gm	

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SUBJECT: PETROLEUM -- REFRIGERATED LPG SHIPMENT FROM NEW ARAMCO PLANT IS WORLD FIRST.

FIFTY THOUSAND BARRELS OF REFRIGERATED LIQUEFIED PETROLEUM GAS (LPG) WERE SHIPPED DECEMBER 6 FROM ARAMCO'S NEW 4,000 BARRELS PER DAY (TO BE EXPANDED TO 12,000 BARRELS PER DAY) REFRIGERATION PLANT ON THE JAPANESE TANKER, THE GOSHU MARU. ACCORDING TO THE ATTACHED ARTICLE FROM THE ARAMCO WEEKLY, THE SUN AND FLARE, OF THE SAME DATE, THIS WAS THE FIRST SUCH SHIPMENT FROM THE FIRST SUCH PLANT ON THE FIRST SUCH TANKER.

ACCORDING TO ARAMCO'S LOCAL GOVERNMENT RELATIONS REPRESENTATIVE IN RAS TANURA, THE SHIPMENT DID NOT PROCEED AS SMOOTHLY AS THE ARTICLE INDICATES. DEFECTS IN EITHER THE INSULATION OR THE SIDES OF TWO TANKS PERMITTED THE REFRIGERATED PROPANE TO FREEZE THE HULL AND FORCED THE TANKER TO LOAD ONLY BUTANE, WHICH IS STORED AT A MUCH HIGHER TEMPERATURE, (SEE ARTICLE) IN THOSE TANKS AND SHIFT THE PROPANE TO TWO OTHER TANKS. AS A RESULT LOADING REQUIRED FIVE OR SIX DAYS INSTEAD OF ONE OR TWO.

JOHN EVARTS HORNER  
AMERICAN CONSUL GENERAL

ENCLOSURE: *WA*  
COPY OF ARTICLE.

COPY TO: AMEMBASSY JIDDA AMEMBASSY BEIRUT

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Page I of I  
Encl. No. I  
Desp. No. 151  
From DHAHRAN

THE FOLLOWING IS A COPY OF AN ARTICLE FROM THE  
DECEMBER 6, 1961, ISSUE OF THE ARAMCO WEEKLY PUBLICATION,  
SUN AND FLARE.

LPG SHIPMENT SETS THREE WORLD OIL FIRSTS

RAS TANURA - THREE WORLD OIL INDUSTRY FIRSTS WERE  
ESTABLISHED TODAY WITH THE SHIPMENT OF 50,000 BARRELS  
OF BUTANE AND PROPANE AS REFRIGERATED LIQUEFIED PETROLEUM  
GAS (LPG).

IT WAS THE FIRST LARGE COMMERCIAL SHIPMENT OF THESE  
GASES AS REFRIGERATED LPG.

THE CARGO, DESTINED FOR JAPAN, WAS LOADED FROM THE  
ARABIAN AMERICAN OIL COMPANY'S NEW \$7,500,000 PLANT, THE  
FIRST FACILITY EVER DESIGNED SPECIFICALLY TO REFRIGERATE  
PROPANE AND BUTANE FOR SHIPMENT BY TANKER.

THE CHILLED LIQUIDS WERE SHIPPED ABOARD THE JAPANESE  
TANKER, GHOSHU MARU, THE FIRST SPECIALLY DESIGNED AND  
BUILT TANKER TO GO INTO SERVICE CARRYING REFRIGERATED LPG.

BUTANE AND PROPANE MAY BE USED FOR DOMESTIC AND IN-  
DUSTRIAL FUEL AND AS A RAW STOCK IN PETROCHEMICAL INDUSTRIES.

THE NEW 46,000 DWT JAPANESE TANKER CARRIED 30,000  
BARRELS OF REFRIGERATED PROPANE AND 20,000 BARRELS OF  
REFRIGERATED BUTANE IN FIVE 10,000-BARREL INSULATED TANKS,  
RESEMBLING HUGE THERMOS BOTTLES, INSTALLED OVER THE KEEL.

THE PROPANE AND BUTANE WHICH MADE UP THE SHIPMENT  
HAD BEEN PUMPED UNDER PRESSURE FROM ARAMCO'S REFINERY  
TO THE REFRIGERATED LPG PLANT IN THE MARINE TERMINAL AREA,  
SEVEN MILES AWAY.

IN THE PLANT THE PROPANE WAS COOLED BY EVAPORATION  
AND THE BUTANE BY HEAT EXCHANGE. THE CHILLED LIQUIDS  
WERE STORED, AWAITING SHIPMENT, IN INSULATED TANKS UNDER  
PRESSURE OF ABOUT ONE-HALF POUND PER SQUARE INCH. THE  
REFRIGERATED LPG INSTALLATION INCLUDES THREE OF THESE  
80,000 BARREL STORAGE TANKS--ONE FOR PROPANE, ONE FOR  
BUTANE AND A THIRD FOR MIXTURE OF THE TWO.

REFRIGERATED BUTANE IN A PURE STATE MUST BE STORED

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From DHAHRAN

AND SHIPPED AT 30°F. PURE PROPANE IS STORED AND SHIPPED AT AROUND -40°F.

PROPANE AND BUTANE ARE LIQUEFIED TO SAVE SPACE. FOR EXAMPLE, 1,000 BARRELS OF LIQUEFIED PROPANE AND BUTANE WHEN TURNED BACK INTO A GAS WOULD FILL A SPACE ROUGHLY EQUAL TO 250,000 BARRELS OF ATMOSPHERIC VAPOR.

THE ADVANTAGE OF KEEPING THESE LIQUIDS AT LOW TEMPERATURE IS THAT THEY CAN BE STORED IN LARGE QUANTITIES AT LOW PRESSURE. AT ORDINARY TEMPERATURES, PROPANE AND BUTANE HAVE TO BE STORED UNDER HIGH PRESSURE, WHICH FOR PRACTICAL REASONS NECESSITATES THE USE OF SMALLER TANKS.

ARAMCO'S REFRIGERATED LPG PLANT CAN CHILL 2,000 BARRELS A DAY OF PROPANE AND 2,500 BARRELS A DAY OF BUTANE. A MAXIMUM OF 8,000 BARRELS AN HOUR OF COOLED PROPANE AND BUTANE CAN BE PUMPED TO A REFRIGERATED TANKER THROUGH 4,500 FEET OF 22-INCH INSULATED PIPELINE RUNNING FROM THE PLANT TO THE LOADING DOCK.

TODAY'S SHIPMENT OF CHILLED PROPANE AND BUTANE WAS PUMPED FROM DOCKSIDE TO THE JAPANESE TANKER THROUGH A NEW CHIKSAN LOADING ARM MADE OF ALUMINUM AND BROUGHT FROM THE UNITED STATES ESPECIALLY FOR REFRIGERATED LPG SERVICE.

IN ADDITION TO TRANSPORTING REFRIGERATED PROPANE AND BUTANE, THE GHOSHU MARU CAN CARRY 250,000 BARRELS OF CRUDE OIL IN SPACES ON BOTH SIDES OF THE TANKS FOR THE CHILLED LIQUIDS. THE BUTANE AND PROPANE CARGO IS FOR DELIVERY TO THE GENERAL GAS COMPANY, AT KAWASAKI, JAPAN.

THE 726-FOOT VESSEL IS OPERATED BY THE MITSUI STEAMSHIP COMPANY UNDER CHARTER TO THE SOCONY-VACUUM OIL COMPANY. LAUNCHED IN MAY, 1961, AT THE TAMANO SHIPYARD IN JAPAN, THE SHIP LEFT TOKYO ON OCTOBER 28 FOR HER MAIDEN VOYAGE TO RAS TANURA.

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Authority 949570  
By JCS NARA Date 3/5/02

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DEPARTMENT OF STATE  
**AIRGRAM**

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A-177  
NO. CONFIDENTIAL

TO : DEPARTMENT OF STATE

INFO : JIDDA, LONDON, TEHRAN

FROM : Amconsul DHAHRAN

SUBJECT : Aramco-SAG Negotiations: Mid-January in Washington?

REF : ConGen's tel. 168 to Dept.

1963 JAN 4 PM 1 57  
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1/2/63  
NOTE made  
HANDLING INDICATOR  
DATE: January 2, 1962

The enclosed memorandum of conversation with Robert I. BROUGHAM of Aramco, chief negotiator for the company in the current talks with SAG, outlines in detail the status of the issues between the company and the Saudi Government and indicates that there is some basis for optimism on the outcome during the next ninety days. The OPEC demands may prove the most troublesome for Aramco but the Saudi Minister of Petroleum, Ahmad Zaki YAMANI, has given an indication that an accommodation can also be reached on these. Tax experts have recommended that negotiations be resumed in Washington in mid-January. The hard core of the negotiations moneywise will be the Sidon claim for a retroactive share in profits of Tapline. Aramco does not recognize it as a legitimate claim on the company but there is some indication that a tax write-off formula will be found making it possible to pay the Government a substantial sum, between 37 and 82 millions, without great loss to company earnings.

The evidence continues to collect that the more difficult problem will be OPEC demands made by Iran on the Consortium and that the companies themselves are split on how to handle the negotiations there. Stability in pricing of petroleum will not be achieved short of cartelization and this is not possible, for the U.S. companies at least.


The companies are disturbed at the prospect the negotiations will falter and will lead to deliberations between Washington and London with the prospect of U.S. and U.K. pressure on the companies to give in to some of the OPEC demands. The companies are watching both sets of negotiations carefully and estimating the impact of possible new agreements on their competitive situation in Europe and the Eastern Hemisphere particularly.

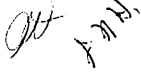
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Drafted by: <u>EHB:rd:ep</u>		12/27/62		Contents and Classification Approved by: <u>JEHorner</u>	
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From Dhahran


Comment: This is the frankest discussion of the SAG-Aramco problem that the post has held during the current talks. Not only the issues but the role being played by some of the personalities emerge more clearly than ever before.

  
John Evarts Horner  
American Consul General

Enclosure: 

Memorandum of Conversation,  
Mr. Brougham and Mr. Bird,  
December 14, 1962.

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Authority 949578  
By SP5 NARA Date 3/5/02

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Enclosure I  
From Dhahran

MEMORANDUM OF CONVERSATION

SUBJECT : ARAMCO-SAG Negotiations.  
PLACE : Mr. Brougham's Office, Aramco, Dhahran, Saudi Arabia.  
DATE : December 14, 1962.  
PARTICIPANTS: Robert I. Brougham, Senior Vice President, Aramco  
Eugene H. Bird, Economic Officer, American Consulate General, Dhahran.

-----  
Mr. Brougham related a conversation he had held during the stopover at the airfield of Minypet Ahmad Zaki YAMANI on December 6. He had suggested waiting until the new year before resuming negotiations since the Saudi tax expert was still working in New York with the company tax lawyers. The Minister had replied that it would be all right to postpone the discussions on the Sidon claim until January, but what about OPEC matters? Mr. Brougham had replied that they had considered their reply had been made to OPEC demands in October and they had been summarized in the form of a paper submitted to the Ministry shortly before the OPEC fifth conference in Riyadh November 22. The Minister noted that the position paper had arrived "too late" for submission to OPEC but that he had hopes that Brougham would not talk to him "as a businessman" but would take a broader view which could end in Aramco and SAG "going down the road arm-in-arm" as they had after the last serious negotiations and change in terms of the concession. But if Aramco persisted in its attitude, the impression would be left, in fact had already been remarked on, that the Consortium was more willing to meet the OPEC demands than was Aramco. Mr. Brougham remarked that he had asked for such evidence and the Minister had replied that the Consortium seemed willing to continue the talks and were taking measures to assure the producing countries a stable income for their future. They were also studying the elimination or reduction of marketing expenses. The Minister had finally agreed that he should talk about further negotiations with Deputy Minister Hisham Nazir during his absence in Japan.

Mr. Brougham related the ensuing conversation with Nazir in the capital on December 9 which ended with the proposal that the Minister be queried upon his return December 25 about resuming the talks in mid-January in Washington on the Sidon claim, as proposed by Mr. Barker, the Saudi-hired tax expert. This would give Mr. Brougham an opportunity to consult with the four parent companies in New York in early January about the OPEC demands. Postponement of the negotiations was agreeable with Aramco but he had no indication on the attitude of the Minister nor the Crown Prince who would certainly be consulted. If the proposal were accepted, only the subject of the Sidon claim and its relatively complicated tax

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problem would be discussed in Washington. Any agreement would be only tentative and subject to a final round of talks in Riyadh of course. The Minister had indicated that if the companies did not meet the OPEC demands, there would be harrassing tactics adopted, at least by SAG, that would be "irritating measures" to the companies but not drastic in nature. Mr. Brougham suggested these initially would include difficulties in visa issuances and in imports of equipment, a favorite Saudi tactic when negotiations were underway.

In his talks with the Minypet chief negotiator on the Sidon claim, Abdul Hadi Tahir, the idea had developed that a settlement might be reached on the basis of deducting actual taxes paid by the companies, so far to the United States Government as the basis of the real profits of Tapline subject to the SAG claim. This might be extremely hard to determine, but it offered a possible solution.

Mr. Brougham went into detail on the Sidon claim, pointing out that Aramco held a quit-claim agreement with SAG for all and any claims previous to October 6, 1953. Tapline had paid out on its investment at least by January 1957 and on another basis, theoretically had paid off its backers the complete capital cost by January 1954. The subject at issue then, if the company decided to honor the SAG claim, was to determine a formula that would be legally acceptable on tax grounds and would not exceed certain restrictions that the company had already placed on the issue. There were four things that the company would not do: (1) We will not go back beyond October 6, 1953; (2) we will not pay a 25 percent penalty or any other penalty on the claim as the SAG is demanding because we do not even recognize the claim as valid; (3) we will under no circumstances discuss an end to depreciation allowances on the pipeline, now figured on a 5 percent a year basis; (4) the company will not agree to pay the full amount that might be theoretically figured on a January 1954 payout schedule since we would obviously prefer to force the matter to arbitration. He had informed Hisham Nazir of these stipulations and in addition had told him that if arbitration were refused if it came to that, the company had the money and what would SAG do about it?

On an actual tax basis, Aramco had calculated the Sidon claim would cost them about 46 million dollars. The actual liability back to January 1957 was 37 millions. It had been suggested that the penalty claim might be paid in substance by actually going back the necessary number of months beyond January 1957 to achieve whatever figure the SAG eventually agreed to. The upper limit of liability would be 82 million which the company would not agree to in any case. The job of computing actual taxes paid by the off-taking parent companies was very complex and this is why the tax experts had suggested Washington as the site for the next round.

Within the parent companies there was disagreement on how to meet OPEC. Page's appearance in Iran (in September) had been met by a more intransigent attitude

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on the part of the Iranians but he had now swung around to suggesting that the Iranians be given some assurances that their income would not sink. Another British company was similarly inclined but the remaining companies were thought to be much harder in their line and wanted to split OPEC.

In response to questions, Mr. Brougham said that he had not noticed any tendency for Saudi officials to be critical of the Venezuelans although he was constantly warning them in private conversations that the aim of Alfonzo was basically to make their competition less difficult to meet. He had recently pointed to the Venezuelan entry into the European markets and their great natural transportation advantage.

On relinquishment, he had constantly asked the Saudis the question, what are you going to do with the land? If it was leased or given to someone, they would simply contradict what they were saying in OPEC of the need to control production and keep prices high. He had had no answer to this argument. The real problem, in his view, was the growing aggressiveness of independents in the field, both producers and marketers. Soviet oil was not so significant. The suggestion had been made that the companies might be able to meet competition if the governments would permit here and in Iran a split in profits based on realizations rather than posted prices. Such a formula in Indonesia was making a nominal 50-50 split an actual 60-40 based on realizations. He had no formula for guaranteeing a producing country that if she adopted taxation on the basis of realized prices that she would not eventually face a softening market and a drop in actual revenues. He noted that in recent letters from parent company executives there was a fear that the UK and the United States were consulting with the intention of deciding that higher political considerations dictated that they place pressure on the companies to give in on some of the OPEC demands. The final problem to be hurdled would be that of coordinating the stands of the oil companies, without violating the cartel laws. He noted that no such restraints applied to foreign-owned oil companies.

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Control: 4300

Rec'd: January 9, 1962  
2 p.m.

NEA

Info

FROM: Dhahran

SS

TO: Secretary of State

SR

G

NO: 193, January 9, 2 p.m.

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ACTION DEPARTMENT 193 INFORMATION JIDDA 249 BEIRUT 74

ARAMCO President Barger departing Dhahran January 11 for approximately ten days consultations New York. Purpose seems to be review problem areas; particularly such matters as Sidon claims, and recent SAG demand for payment income tax claimed as result SAG non-recognition drop in posted price crude after August 1960. I have urged Barger attempt pay visit Washington during trip, since I feel Department would find it useful draw on his large fund of knowledge of area. Since Barger knows Rostow, latter might wish take initiative in inviting him visit Department.

HORNER

DMB

886A.2553/1-962

17 JAN 9 11 5 10  
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ACTION ASSIGNED TO		ACTION TAKEN		DIRECTIONS TO RM/R	
NAME OF OFFICER & OFFICE SYMBOL		DATE OF ACTION		File	

DECLASSIFIED

Authority 949570

By JCS NARA Date 3/5/02

PRIORITY  
 (Security Classification)  
**FOREIGN SERVICE DESPATCH**

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886a.2553/1-1462

FROM : AMEMBASSY RIYADH

27  
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

January 14, 1962

DATE

REF : CITE D-15; Embassy Despatch 92, December 31, 1961

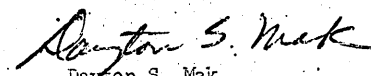
For Dept. Use Only	ACTION	DEF
	REC'D	OTHER
	1-20	CIA-11 COM-17 INT-7 OSD-3 TAR-1 ARMY-3 NAVY-3 NSA-3

SUBJECT: New Getty Oil Management Triumvirate Still Unclear About Authority

Since Embdes 92 covering the reorganization of the Getty Oil Company management in the Neutral Zone concession, the Embassy has learned that although there has been no official change in the title of Riyadh Representative Nabil Abu Seoud, he is regarded by the Neutral Zone triumvirate (according to one of them) as in fact Zone Manager par excellence, by virtue of the fact that all reports from the Neutral Zone, although sent directly to Getty in London, in fact are reproduced for Abu Seoud in Riyadh. It has not yet become clear on whose orders this is done.

On a recent trip to the Getty camp during the visit of Ambassador Hart to Kuwait, the reporting officer was left with the distinct impression that doubts about the wisdom of the new organization of the Getty Zone management, especially the role of Nabil Abu Seoud, are at least in part compensated for by the relief that a movement for change has been made which offers hope of resolution of at least some of the local problems besetting the Getty Oil operation in the Neutral Zone.

For the Ambassador:

  
 Dayton S. Mak  
 Charge d'Affaires a. i.

cc: Dhahran, Jidda

RMitchell:ri  
REPORTER

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ORIGIN/ACTION

RM/R REP AF

ARA EUR FE

NEA CU INR

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FBO

AGR COM FRB

INT LAB TAR

TR XMB AIR

ARMY CIA NAVY

OSD USIA

DEPARTMENT OF STATE

# AIRGRAM

(Departmental and Foreign Service)

8860.2553/1-1462

70

NO.

CONFIDENTIAL

TO : Secstate WASHINGTON

RPTD INFO: Baghdad 37 Beirut 39 Caracas 01 Dhahran 23 Jidda 28  
Khorramshahr 02 Teheran 07

JAN 19 22 00 PM '62

FROM : Amembassy KUWAIT

DATE: January 14, 1962

SUBJECT : OPEC and Crude Price Reduction of 1960

REF : Dhahran's A-33 to Department

According Faisal Mazidi, GOK Oil Affairs official, there is currently no OPEC directive coordinating producing country resistance to August 1960 posted price reduction for crude. GOK, he says, follows practice of accepting oil company statements of sales and royalties, but with official reservation of position "pending later developments". Although Mazidi left open possibility of OPEC action, he appeared neither anxious about nor expectant of such a development.

MAK

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FORM DS-323

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☒ In ☐ Out

Drafted by:

RPMitchell:ri

Contents and Classification Approved by:

Dayton S. Mak, Charge d'Affaires

Clearances:

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Authority 949578

By JCS NARA Date 3/5/02

AIR POUCH  
PRIORITY

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(Security Classification)

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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy JIDDA

190  
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

January 18, 1962

REF : CERP: D-15; Dhahran A-33 to Dept rptd Jidda A-25  
and other posts

9 For Dept. Use Only	ACTION REC'D 1-31-62	DEPT. I N R O RMR-2 Rpt-1 INR-3 E-3 AIO-7 Com-17 INT-7 OSD-3 TAR-2 ARMY-5 NAVY-3
----------------------------	----------------------------	--

SUBJECT: PETROLEUM: Aramco Rejects Saudi Government Claim Pertaining to 1960 Air-3  
Crude Oil Price Reduction

As was expected, Aramco has officially rejected the Saudi Government's claim for 22 million dollars related to the Government's non-acceptance of the validity of the August 1960 cut in crude oil posted prices. The company's position was concisely stated in its letter dated January 6, 1962, addressed to the Minister of Petroleum and Mineral Resources and signed by Aramco's Riyadh representative. The full text has been obtained from Aramco's Jidda representative, and is as follows:

"Please refer to your letter No. 4137/3/8/15 of 17 Jumada II 1381 (25 November 1961), requesting the company to credit the government's account with \$22,212,071.55.

We feel that we should take this opportunity to express our opinion that the price changes of August 1960 were fully justified. For some time prior to August 1960, major deals between Persian Gulf producers and independent refiners and marketers had been transacted at various figures, all substantially below the posted prices in the area, and commentators on the situation had long wondered over the artificially high prices which continued to be posted. The prices posted had little meaning except in transactions between the producers and affiliated buyers. These transactions placed affiliated companies in an untenable competitive position vis-a-vis independent buyers, who could get substantial discounts from this and other sources. It was inevitable that a measure of economic equilibrium would assert itself and that transactions between affiliated sellers and buyers would have to be adjusted more nearly to reflect what had become an economic fact in the market. We assume that it was this fact which moved the government to approve the initial prices posted by the Arabian Oil Company Limited, which, if adjusted for gravity and transportation, would appear to be the same as those at which our Safaniya crude has been sold since August 1960.

As the realizable value of Saudi Arabian oil depends upon the acceptability of its price in the world markets, it is likewise inevitable that the country's potential wealth, so far as it is measured by the value of oil in the ground, will rise and fall with the prices which buyers are willing to pay for it. Those buyers include affiliates of Aramco. Like any other buyers, they cannot be expected to guarantee the government against the facts of fluctuations in price.

WDWolle/eh  
REPORTER

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Authority 949570  
By JES NARA Date 3/5/02

Page 2 of  
Encl. No. \_\_\_\_\_  
Desp. No. 190  
From Jidda

With kind regards."

...the ...  
...and ...  
...to predict sales by ...  
...were awarded; in the event, however, the Government's ...  
...and ...  
...since 1970.

*[Signature]*

Richard H. Hawkins, Jr.  
Charge d'Affaires a.i.

There are two other persons who have been identified as having had contact with the subject without any forwarding expense being paid by them. One is a man named [redacted] (last name spelled) who has been identified as having had contact with the subject (last name spelled). This disclosure was not made until after the subject's information which appears to have been obtained from the [redacted] correspondence.

Richard H. Hawkins, Jr.  
Charge d'Affaires, A.I.

cc: AmGonGen: DHAHRAN

We advised you, in our letter No. 2809/21/37, dated 15 March 1971 (15 December 1970), of our decision ruling that change agents are not eligible for the award of full and undiminished credit of service medals, without granting discounts of any kind.

Wash. Field, T.O. 6-274-66, dated 17 Shaban 1379 (14 February 1960), stated that the above communication was above letter to go into effect as of 1 January 1961 in view of the fact that our above letter reached you less than one month's time prior to (the first of) January 1960.

On 12-1, contemporarily prepare your 1951 tax declaration on the basis of the placed figure in effort before 1 August 1950 without any deduction of any 1951 tax liability exceeding expenses.

We advised you in our previous letter that we would inform you as

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5. Borrowers must return this photograph, dated copy is 1904, plus an endorsement of value taken

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Authority 949570  
By JS NARA Date 3/5/02

<div style="text-align: center;"> <b>CONFIDENTIAL</b>  <small>(Security Classification)</small> </div>		<div style="text-align: center;"> DO NOT TYPE IN THIS SPACE  886a.2553 / 1-2062 </div>			
<div style="text-align: center;"> <b>FOREIGN SERVICE DESPATCH</b> </div>					
FROM : AmEmbassy JIDDA	192	January 20, 1962			
TO : THE DEPARTMENT OF STATE, WASHINGTON.	DESP. NO.	DATE			
REF : Embdespatches 169, Dec. 24, 1959; 306 and 336, May 4 and 26, 1960					
<table border="1"> <tr> <td>9 For Dept. Use Only</td> <td> ACTION NEA-4 REC'D 1-31-62 </td> <td> DEPT. 1 IN P O OTHER RNR-2 Rf-1 INR-3 E-7 AIO-7 Com-17 INT-7 CIA-11 TAR-2 ARMY-3 NAVY-3 </td> </tr> </table>	9 For Dept. Use Only	ACTION NEA-4 REC'D 1-31-62	DEPT. 1 IN P O OTHER RNR-2 Rf-1 INR-3 E-7 AIO-7 Com-17 INT-7 CIA-11 TAR-2 ARMY-3 NAVY-3		
9 For Dept. Use Only	ACTION NEA-4 REC'D 1-31-62	DEPT. 1 IN P O OTHER RNR-2 Rf-1 INR-3 E-7 AIO-7 Com-17 INT-7 CIA-11 TAR-2 ARMY-3 NAVY-3			
SUBJECT: PETROLEUM: Saudi Government Disallows Aramco Marketing Expenses on Refined Products as well as on Crude Oil Sales					

The Saudi Government has informed Aramco that, as of January 1, 1963, the company must compute its profits from the sale of refined products to all buyers without deducting marketing or other allowances. This decision, communicated in a letter of January 2, 1962, addressed to Aramco's Dammam representative and signed by the Petroleum Ministry's Director General, culminates an exchange of several letters in the period December 1959 - May 1960 (see refdespatches) on various aspects of marketing allowances. Back in 1959-60, the Petroleum Ministry seemed to hold out a slight hope that it would continue to recognize a marketing allowance on product sales by Aramco's oftaker companies provided Ras Tanura sales were expanded; in the event, however, the Government's decision against this allowance has been taken despite the sharply increased activity at the refinery since 1959.

The Government has also directed Aramco to prepare its 1961 tax declaration for crude oil sales without any marketing expense deductions (as well as on the basis of pre-August 1960 posted prices). This directive was not unexpected, as the Government's intention with respect to crude sales had been clearly registered in the above-mentioned correspondence.

Following is the complete text of the Petroleum Ministry's letter of January 2, 1962:

"We advised you, in our letter No. 2599/21/2/2, dated 14 Jumada II 1379 (14 December 1959), of our decision ruling that Aramco compute its tax obligations on the basis of full and undiminished crude oil posted prices, without granting discounts of any kind.

Your letter No. 6-274-60, dated 17 Sha'ban 1379 (14 February 1960), stated that you were considering our above letter to go into effect as of 1 January 1961 in view of the fact that our above letter reached you less than the agreed ninety days prior to (the first of) January 1960.

You must consequently prepare your 1961 tax declaration on the basis of the posted prices in effect before 9 August 1960 without any deduction of any kind, including marketing expenses.

We advised you in our above letter that we would inform you as a

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JAN 22 1962

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(Classification)

Page 2 of

Encl. No.

Desp. No. 192

From Jidda

later date whether the tax on profits from refined products would be based on the posted prices without deductions of any kind. The reason our decision was delayed at the time was our desire to pursue the study of the problems related to refined products, their production, and their realized sales prices.

We have now ascertained that the sale of products at less than posted prices and with a very high discount in the neighborhood of 26% of the posted price, was not an incentive for your off-takers to concentrate their efforts on the solution of the economic and technical problems of the Ras Tanura refinery. We, therefore, officially notify you that, as of 1 January 1963, the computation of profits from the sale of products to any and all buyers will be based on the posted prices for products without deductions of any kind.

We stress in this letter the necessity for your company to pay the amount of \$22,212,071.55 in accordance with the contents of our letter No. 4137/3/8/15, dated 15 Jumada II 1381 (25 November 1961), as a result of the reduction that occurred in the posted prices for crude oil and refined products between August 1960 and the end of June 1961. The government also reserves a similar right in respect of the differences mentioned in our above letter with regard to sales of crude oil and refined products for the period after June 1961 and subsequent periods.

With kind regards.

**COMMENT:** Saudi Petroleum Minister 'Abd Allah TARIKI has been told continually by Aramco officers, mainly by Senior Vice President R. I. BROUGHAM, that insistence by the Government on disallowance of marketing expenses in computation of profits would have an adverse effect on Aramco sales. Tariki, for his part, has made it clear in conversations -- though not always in the Ministry's written communications -- that his position on the subject was motivated by a desire to compel Aramco to enter directly, i.e. in its own name, into the field of marketing. Thus, Tariki's fetish of integration seems, in the final analysis, to be dictating the Saudi Government's stand on the subject of marketing allowances.

Richard H. Hawkins, Jr.  
Chargé d'Affaires a.i.

cc: AmConGen DHAHRAN

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Authority 949578  
By JCS NARA Date 3/5/02

AIR POUCH  
PRIORITY  
CONFIDENTIAL  
(with UNCLASSIFIED section)  
(Security Classification)  
FOREIGN SERVICE DESPATCH

FROM : AmEmbassy JIDDA  
DESP. NO. 194

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP, D-14; Embdes 153, Nov. 30, 1961

9 For Dept. Use Only	ACTION REC'D 1-31-62	DEPT. IN F OTHER RM/R-2 Ref-1 INR-3 E-7 AID-7 Com-17 INT-7 CIA-11 TAR-2 OSD-3
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SUBJECT: PETROLEUM: Saudi Arabian Refining Company Openly Criticizes Aramco and the Saudi Government

BEGIN UNCLASSIFIED

The appearance January 3 in Jidda daily al-Bilad of a Saudi Arabian Refining Company (SARCO) statement signed by Sarco Board Member Prince KHALID bin Turki broke a long silence on the part of this company. An unofficial translation of the key paragraph of this statement follows:

"We negotiated with Aramco to buy the bulk storage plant in Jidda which is owned by Aramco and considered as basic to the concession granted to us for marketing and refining. However, Aramco requested an unreasonable price, so we agreed that a company chosen by Aramco should assess the plant's value. After its study, this company submitted a valuation which Aramco rejected. But we continued negotiations until we agreed on the value and conditions. We were about to sign the contract but we were surprised by Aramco's demand that we obtain a license from the Government in spite of the fact that we possess a final and legal concession. Several months ago we approached the Government in order to meet Aramco's demands, but we were faced by red tape which blocked our activities, and also the Government submitted proposals unrelated to our case. We are now expecting that all obstacles and difficulties will be eased, and then we will sign a contract for the building of the refinery so as to achieve a firm, practical step in accomplishment of our huge project. We will keep your newspaper informed about future developments."

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BEGIN CONFIDENTIAL

COMMENT: No definitive explanation can be offered as to the reason for Sarco's choosing this time to criticize Aramco and also mildly scold the Saudi Government. It may be that the statement, which took the form of a letter addressed to al-Bilad's Chief Editor, was prompted simply by a front page al-Bilad article of December 27, 1961, which alleged that Sarco's fortunes had recently taken a turn for the better "now that its difficulties with some government circles were resolved". On the other hand, Sarco could conceivably have planted the December 27 article as a peg on which to hang Prince Khalid's statement. At any rate, this attack on Aramco is at variance with Sarco officials' past expressions of appreciation for Aramco's non-obstructive attitude during the 1960-61 negotiations.

WDWolle/eh

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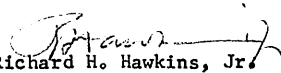
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(Classification)

Page 2 of  
Encl. No. \_\_\_\_\_  
Desp. No. 194  
From Jidda

between the two companies.

Information presently available indicates that Saudi Petroleum Minister TARIKI is persisting in his efforts to achieve some sort of government takeover of a majority share of Sarco or, failing that, to scuttle the company's plans. Also, there have been unconfirmed reports that Lebanon's Emile BUSTANI is dickering with the Ralph M. Parsons Company of Los Angeles to join in planning a large oil refinery at Jidda under Sarco auspices. According to these reports Bustani sees this project as a possible means of entree into the Saudi economy which up to now has been an inhospitable one toward him.

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Richard H. Hawkins, Jr.  
Charge d'Affaires a.i.

cc: Amcongen DHAHRAN

AmEmbassy BEIRUT

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By SPS NARA Date 3/5/02

INCOMING TELEGRAM

Department of State

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Action

Control: 15122

Rec'd: Jan. 26, 1962  
12:23 AM

Info

FROM: Dhahran

TO: Secretary of State

NO: 209, January 25, 8 a.m.

DHAHRAN 209

ACTION DEPARTMENT 209, INFORMATION JIDDA 264, LONDON, BAGHDAD, CARACAS, KHORRAMSHAHR, KUWAIT, TEHRAN, BEIRUT UNNUMBERED

1. In anticipation call by ARAMCO President Barger on Departmental officers, we reviewed today with pertinent ARAMCO officials current status of problem areas confronting ARAMCO vis-a-vis SAG. While much background information either available in Department or obtainable from ARAMCO's Washington office, believe succinct statement of way ARAMCO presently views its relations with SAG may be useful.

2. Since last December, ARAMCO has received some seven letters from Tariki, some touching on old problems, and others raising new demands. If ARAMCO were to accede to all these SAG claims, cost would be in excess \$200 million.

3. ARAMCO's major problems stem from theories Saudi Minister Petroleum Abdullah Tariki, who maintains ARAMCO should divest itself of its four American owners, become a Saudi corporation, post own prices and sell directly to anyone wishing to buy. Integrate into all phases of oil industry right down to service stations so that when concession ends Saudi Arabia will have a complete going concern. Particular problems include ARAMCO's inability comply with posting and selling demand both for business economic reasons and because of possibilities anti-trust complications with United States Justice Department. Outstanding example major problem based on this dilemma is sale on asphalt to Jidda merchant named Gadayel for export to Yemen. ARAMCO unable sell direct for export as Saudis demand and off-takers unable sell this particular cargo because end use for CHICOMS IN Yemen hence forbidden by United States Government.

/Another

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By JCS NARA Date 3/5/02

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-2- 209, January 25, 8 a.m From Dhahran

Another example third party trading companies which Saudis refuse to permit despite clear possibility increased oil sales because idea appears to Tariki to be conflict his integration theory.

4. Largest single financial potential liability is Sidon claim where Saudis claim share in profits imputed to ARAMCO from uplift of oil through pipeline to Sidon. Tariki publicly states this claim worth \$180 million. ARAMCO states it owes nothing is willing to resume arbitration entered into several years ago but suspended at Saudi request to seek possible compromise. 8869-2559

Other current problem areas as follows: A. Setting of posted prices (CONGEN airgrams A-33 action Department, and G-28 action Jidda INFO DEPT. G-32, and previous). Tariki's latest letter about posted prices repeated insistence on consultation before any change, up or down.

B. Deductions from posted prices in figuring taxes (CONGEN Despatch 269 page 15). Letter also states 1961 taxes should be figured on posted prices without allowance for crude discounts or audited marketing expenses. ARAMCO estimates additional tax \$33 million. Beginning '63, no discounts to be allowed on products sales. 8869-2553

C. Deductability of expenses incurred outside Saudi Arabia and donations (Jidda Despatch 412 page 3 of enclosure 1). New York office and ARAMCO overseas expenses principal items not allowed. 8869-2553

6. Following problems not currently troublesome:

- A. Profit-sharing revision (Jidda Despatch 412, item 5).
- B. Relinquishment (IBID).
- C. Conservation and utilization of natural gas (IBID).
- D. SARCO (Jidda Despatch 153 and CONGEN Despatch 2).

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HORNER

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Authority 949578  
By JCS NARA Date 3/5/02

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FOREIGN SERVICE DESPATCH

208

DESP. NO.

January 27, 1962

DATE

FROM : AmEmbassy JIDDA

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : Embdespatches 412 of June 21, 1961 and 313 of May 10, 1960

For Dept. Use Only	ACTION	DEPT.
	REC'D	OTHER
67	WEA-4	1 INR-5 E-3
2/14	2/14	2/14

SUBJECT: PETROLEUM: SAG-Aramco Discussions of "Sidon Claim" and Trading Company Topics Leave Issues Still Unresolved

Enclosed are copies of documents obtained recently from the Aramco Jidda representative which may interest the Department. They are:

1 - A November 28, 1961 letter, with 7 attachments, from Aramco Senior Vice President R. I. BROUGHAM to Aramco's New York office describing discussions with Saudi Petroleum Ministry officials concerning the Tapline/Sidon claim problem and the matter of trading companies.

2 - A letter dated December 30, 1961 from the Petroleum Ministry to Aramco's Damman representative reiterating the ministry's objection to the company's export marketing practises and to the trading company concept.

This correspondence brings out certain points of special interest, though none of them are new revelations:

1 - Aramco's conviction that it owes no additional money to Saudi Arabia with respect to sales made at Sidon, and that any impartial judge would uphold this conviction.

2 - Aramco's continued unwillingness, in any event, to consider any compromise settlement of the Sidon claim unless and until satisfactory arrangements can be agreed for the future operation of Tapline.

3 - Petroleum Minister TARIKI's self-made predicament whereby, having made grandiose public claims about the amount "owed" by Aramco on past sales at Sidon, he now would find it extremely difficult to endorse any kind of reasonable compromise even if he wished.

4 - Tariki's firm opposition to the establishment of "third party" trading companies (i.e., trading companies unaffiliated with Aramco's off-takers), a technique Aramco believes likely to increase opportunities for long-term sales of crude oil to buyers not affiliated with Aramco's owners.

5 - The distrust between two of Tariki's key lieutenants, Legal Advisor Frank HENDRYX and Accounting Consultant Francis PRYOR (both American citizens).

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By JCS NARA Date 3/5/02

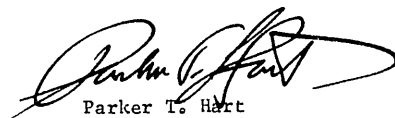
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Page 2 of  
Encl. No.         
Desp. No. 208  
From Jidda

According to the Aramco Jidda representative, conversations in Riyadh on January 6 between top Aramco officials and both Tariki and Crown Prince FAYSAL touched upon the Sidon claim among other topics. At this meeting Prince Faysal departed from past practise by showing a willingness to allow the Sidon claim eventually go to arbitration. In a separate meeting earlier in the day, Tariki came up with the novel idea that Tapline faced an uneconomic future as an oil carrier and should perhaps be converted into a natural gas pipeline aimed at supplying the Egyptian and other markets. The Aramco officials agreed to give this some thought, although they consider it is an absurd idea especially coming from someone who for years has espoused the concept of yet another oil pipeline between the Gulf and the Mediterranean. ~~XXXXXXXX~~

COMMENT: Although Aramco would like nothing better than to settle the Sidon claim once and for all (a feeling apparently shared by Frank Hendryx), and despite the fact that the King has expressed to Aramco officers his desire for a settlement, the Embassy sees no agreement in sight so long as Tariki calls the shots on Saudi Arabia's oil policies.

  
Parker T. Hart

Enclosures: 1  
As stated

cc: Amcongen DHAHRAN (without enclosures)

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Enclosure 1

Desp. 208

Jidda

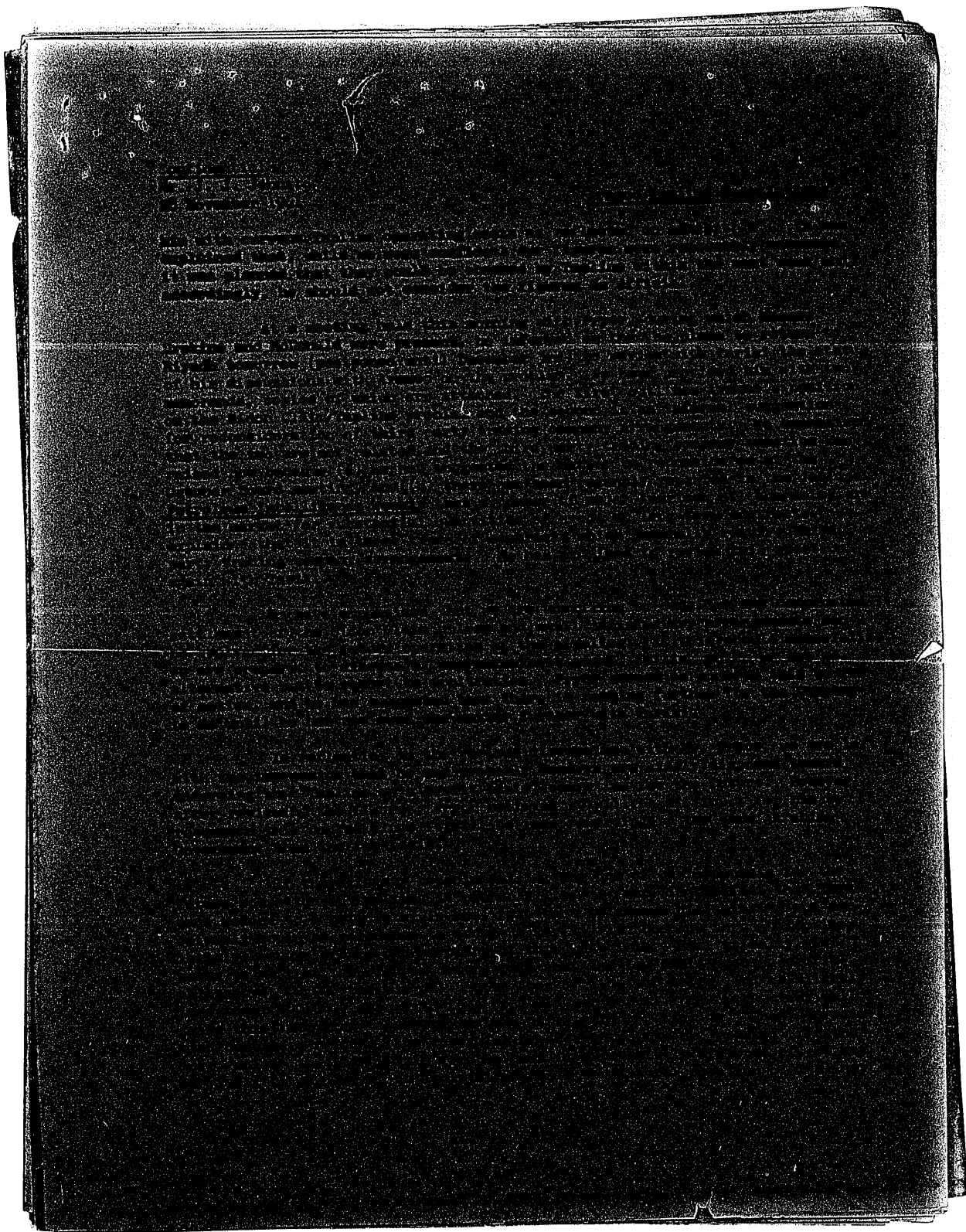
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The [illegible] [illegible]  
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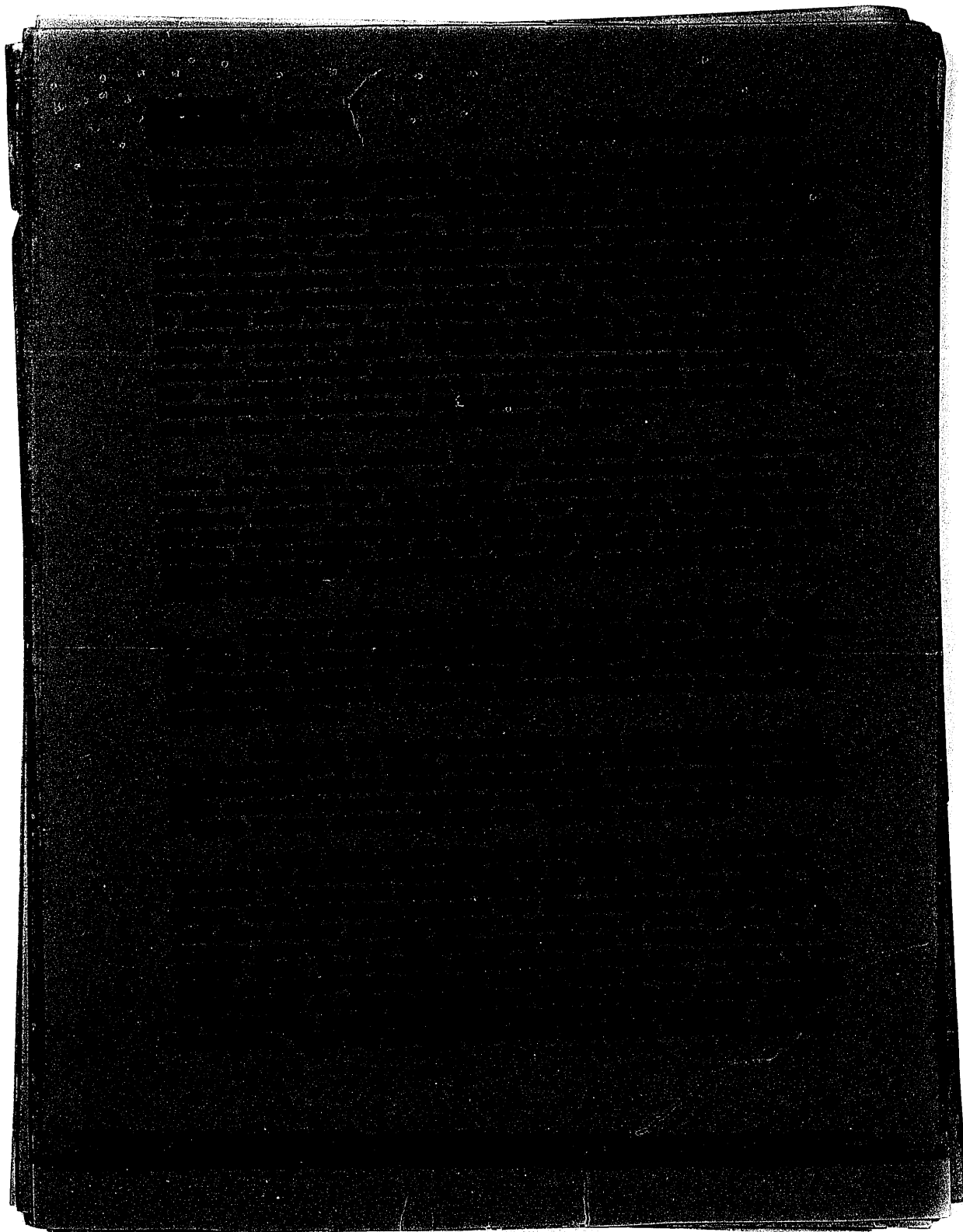
12-12-12 12:35

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By JCS NARA Date 3/5/02

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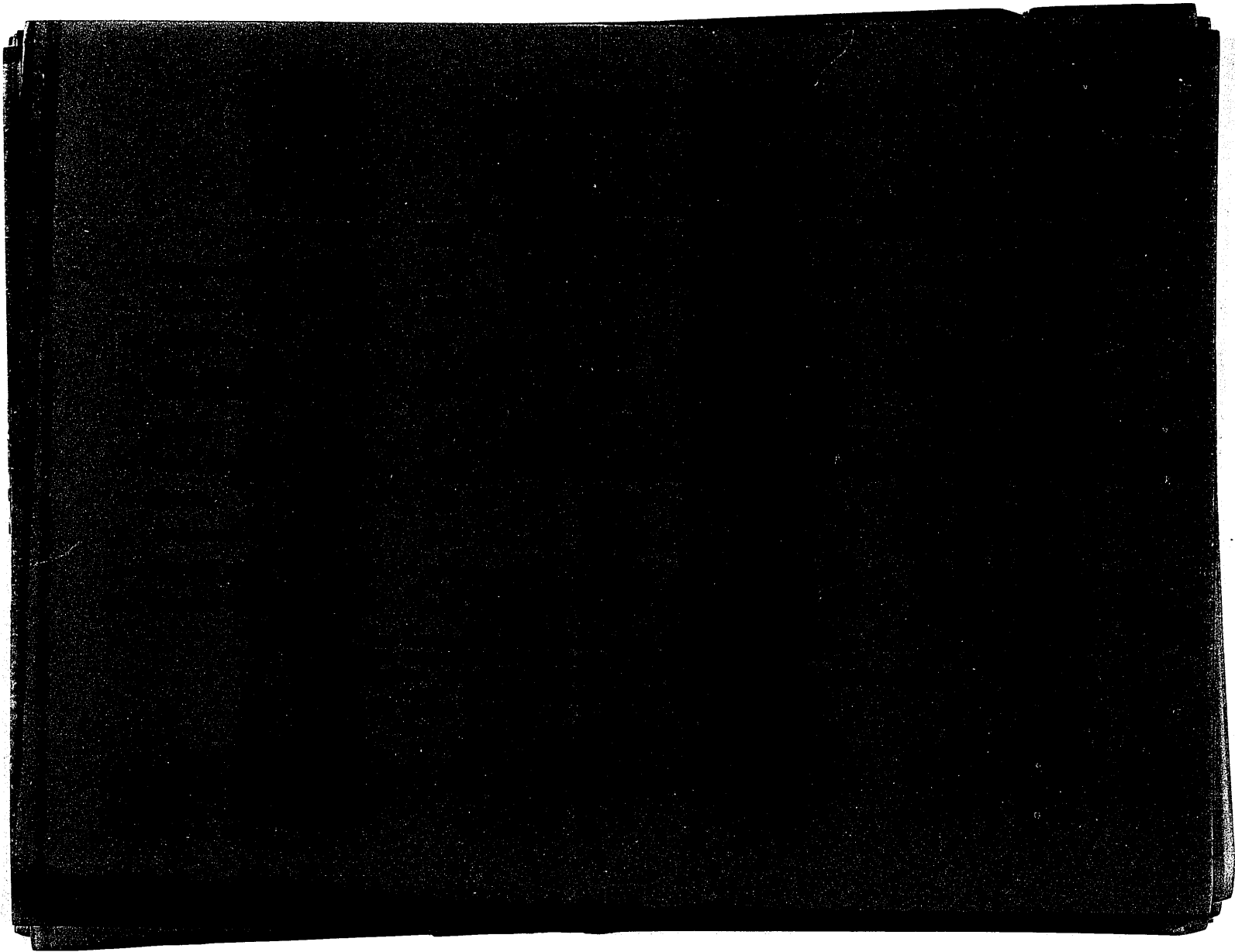
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By JCS NARA Date 3/8/02



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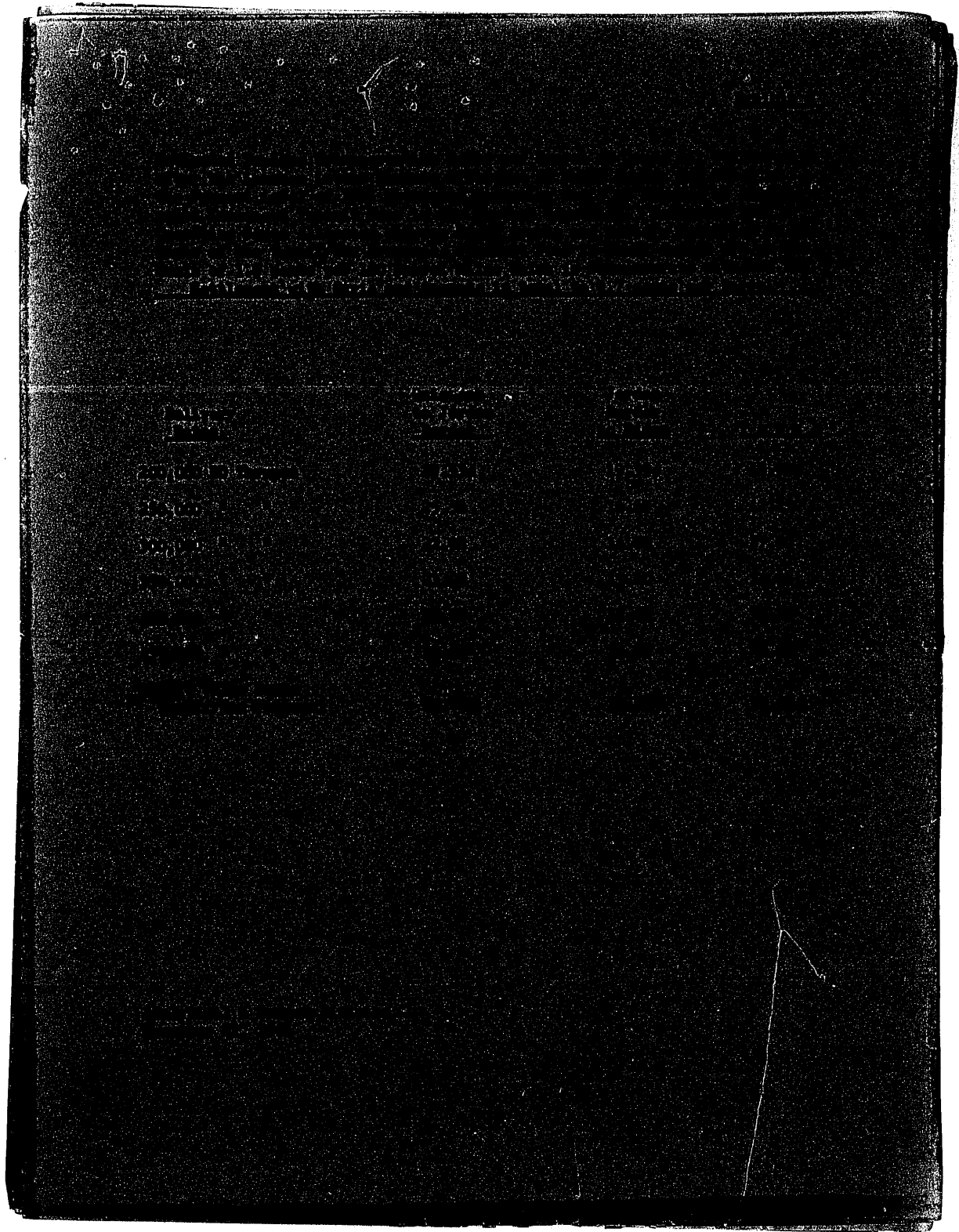
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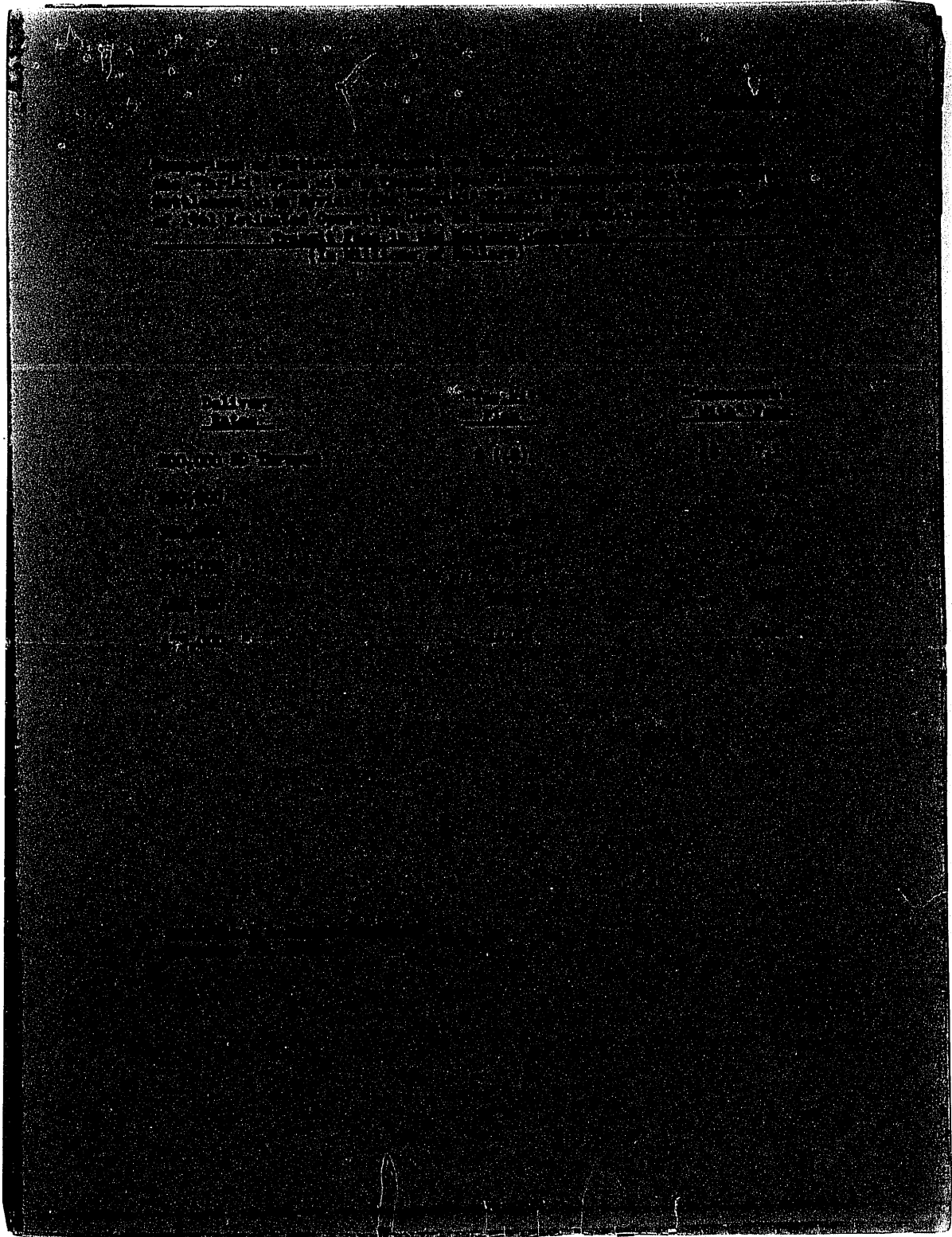
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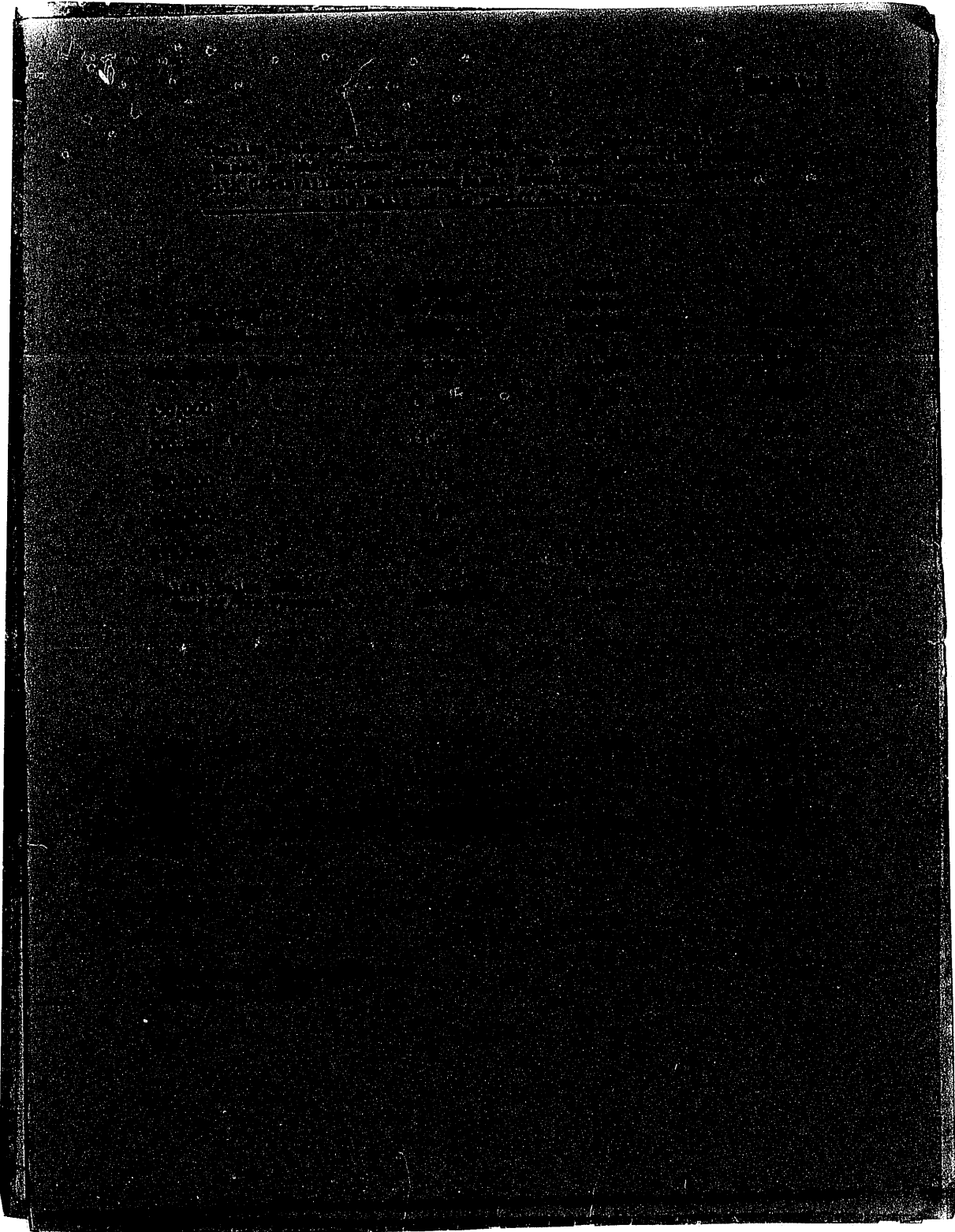
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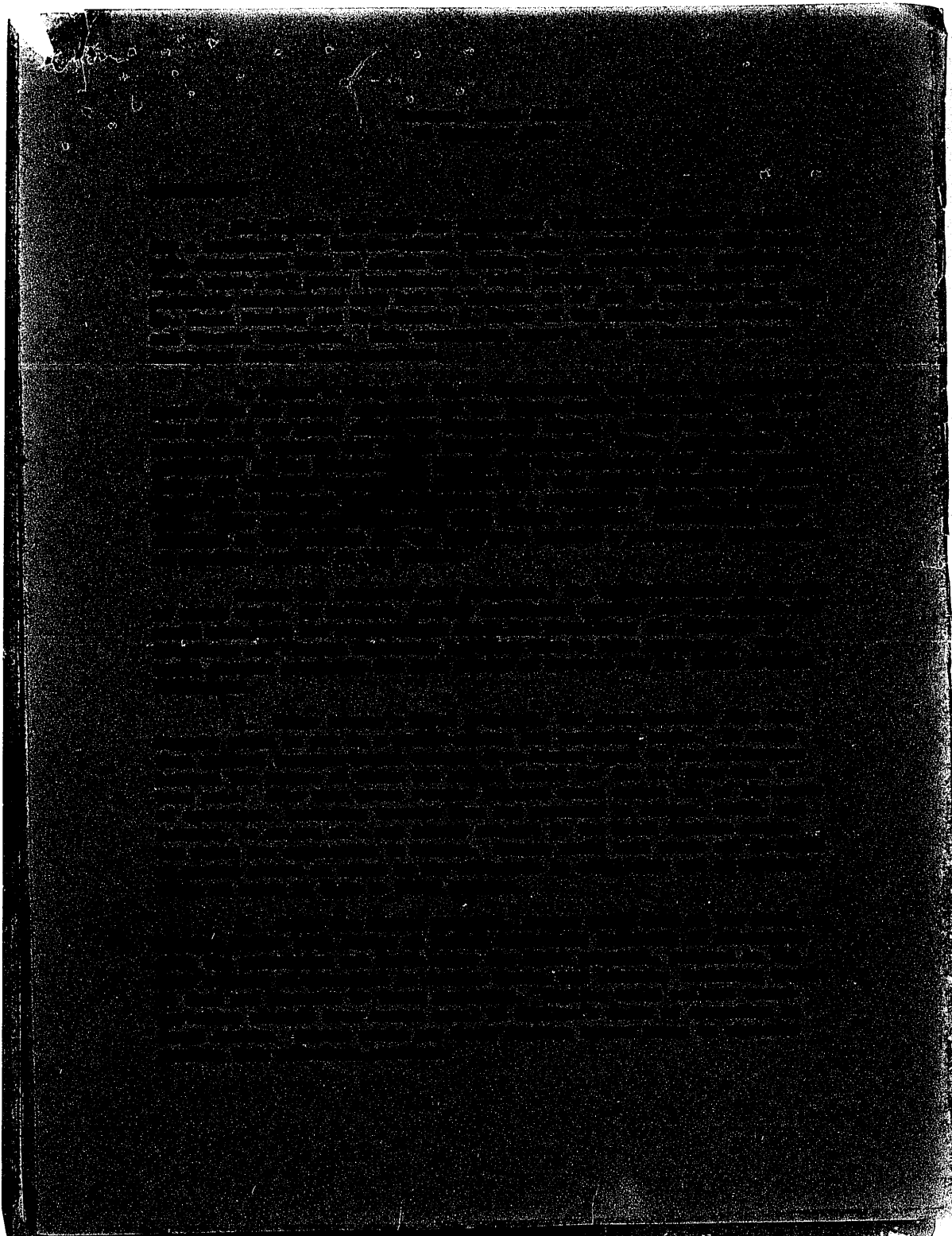
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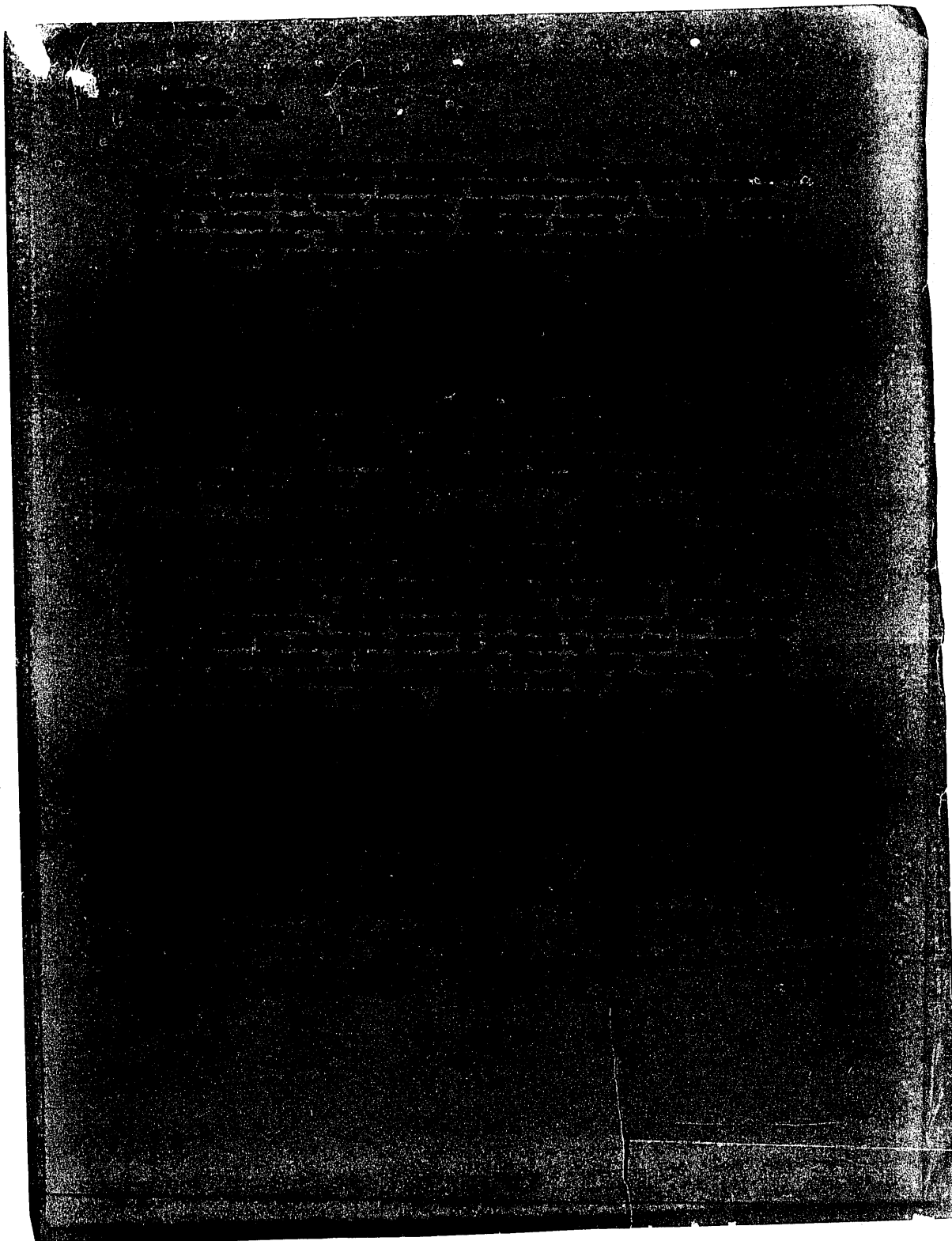
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By JTS NARA Date 3/5/02



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By JCS NARA Date 3/5/02



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Authority 949570

By JCS NARA Date 3/5/02

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Rhahran, Saudi Arabia  
28 November 1961

MEMORANDUM:

As was stated to Messrs. Hendryx and Pryor during our discussions in Dhahran on the 18th and 19th of November 1961, opportunities for the sale by Aramco's off-takers to unaffiliated third parties would be improved were it possible to effect such sales through trading companies set up by the third parties.

The details of this technique have been explained to His Excellency the Minister of Petroleum and Mineral Resources. In substance, it consists in the creation by the third party of a trading company which would be subject to Saudi Arabian income taxes. This trading company would buy from Aramco through one of Aramco's off-takers at a "halfway" or attractively discounted price, on which Aramco would pay applicable Saudi Arabian income taxes as usual. The trading company would sell to its principals at posted prices or commercial realization prices, and would pay applicable Saudi Arabian income taxes on the profit made. The sum of these two tax payments would exactly equal the tax which Aramco would pay had it made the sale at the posted or realization price itself. Thus, nothing whatsoever is lost to the Government in revenue. The technique has considerable attraction for the third party because he can obtain crude at a "halfway" or similar price and, although the Saudi Arabian income tax would appear partially to offset this advantage, tax credit opportunities elsewhere overcome this difficulty.

While we cannot assure either the Government or ourselves that freedom to use this technique will actually increase offtake, it is a technique which has been used elsewhere in the Middle East and where need has facilitated the movement of crude in a number of large-scale long-term contracts. We can assure the Government that without similar freedom to arrange sales in this fashion, Aramco and its off-takers are forced to forego opportunities and are restricted in their ability fully to meet competition in the markets in which Aramco's crude oil is sold. A recent report indicates that four major companies are currently negotiating for long-term Middle East crude supply contracts on a "profit-sharing" basis, such basis in some cases involving "halfway" prices. There seems to be a distinct possibility that opportunities of this sort, where a device such as trading companies is essential to capture the business, will become more numerous in the future.

We therefore earnestly request a review of this matter by the Government. We should add that we do not ask for this review as a condition upon our proposals for settlement of the Sidos Claim and future operations of Tipline contained in our memorandum of even date herewith.

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Authority 949578

By JCS NARA Date 3/5/02

Enclosure 2

Desp. 208.

Jidda

Kingdom of Saudi Arabia

Ministry of Petroleum and  
Mineral Resources

22 Rajab 1381

10 December 1961

13 JAN 1962

Arabian American Oil Company  
Dammam

Dear Sir:

Reference is made to letter No. 6-2461-61, dated 16 Rajab 1381 (21 December 1961), of the Company Representative, Riyadh, to which was attached a memorandum regarding the so-called trading companies.

We would assure you at the outset that this Government is always interested in any legitimate means that would result in an increase in Saudi oil sales. However, as we have set forth in detail in the past, we do not look upon the creation of trading companies as a means of this type. The Company has been, in the past, and still is unwilling to assure us that the use of trading companies would result in an expansion of the scope of our oil sales. We are, therefore, compelled to consider the use of these companies as a mere hypothetical possibility for an increase in oil sales with a consequent increase in the Government's income. We must clearly admit that the use of trading companies would primarily represent a convenient means for Aramco's owners and off-takers. In this connection, we would state here once again our unqualified objection to the continued use of the present monopolistic means through which Saudi oil is disposed of. We must also reiterate our firm belief that the sales method used at present by Aramco does not serve the interests of the Kingdom in the best possible manner. It is also evident that this method does not at present result in the sound development of our petroleum and does not lead to the greatest possible sales realization for our petroleum. Under the present off-taking arrangements Saudi Arabia's income remains always at the mercy of Aramco's owners and off-takers and is subject to their economic interests. We consider this mode to be in violation of both the Concession Agreement concluded with you and the Saudi Income Tax Law. Cancellation by your Company of the off-taking arrangements and of the method followed at present in concluding sales, with your Company thereafter concluding sales itself with anyone wishing to buy, would lead to the solution of your problem in a more positive and effective manner than the adoption of any other means, including the so-called trading companies. Under the agreement concluded with it, your Company has the legal basis and the necessary authority to discharge its obligations in respect of oil sales in the manner we believe such obligations should be discharged. We would specifically draw your attention in this connection to the contents of Article 32.

In view of the foregoing we find no reason to change the opinion which we have previously set forth in respect of trading companies. We consider these companies as a means giving no assurance that it would necessarily lead to the realization of this Kingdom's best interests.

ARAMCO 4917 (10/55)

TRANSLATION DIVISION, DHAHRAN

JAN 7 1962

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Authority 949578  
By JCS NARA Date 3/5/02

TRANSLATION

- 2 -

With kind regards.

Director General of the Ministry

(Sgd.) Abdul Wahid Tahir

(Tpd.) ABUL WAHID TAHIR

**Translator's Note:** The original Arabic of this letter is obviously an attempt at rendering a text conceived in English.

cc: Mr. C. P. Brown  
Mr. T. J. Brown  
Mr. T. J. Brown  
General Counsel -/photocopy Arabic  
Controller  
Comptroller  
Gen. Mgr. - PNO  
Company Representative - PNO  
Company Representative - Jiddah  
Company Representative - Riyadh  
Associate Economist  
J. J. Johnston - New York -/photocopy Arabic  
G. Owen - Washington  
J. Noble (Sydney) - Beirut  
Exec. Office Sec. -/photocopy Arabic  
SNO Policy -/orig.

FORM 100-10 (10/54)

TRANSLATION DIVISION, OSANSON

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By JCS NARA Date 3/5/02

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Department of State

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Action  
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FROM: JIDDA

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TO: Secretary of State

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NO: 447, JANUARY 31, 11 AM

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ACTION DEPARTMENT 447, INFORMATION AMMAN 33, BAGHDAD 34, BEIRUT 109, BERN 2, BONN 16, BRUSSELS 1, CAIRO 85, DAMASCUS 20, DHAHRAN 333, LONDON 81, ROME 11, THE HAGUE 2, KUWAIT, TAIZ UNNUMBERED

DAMASCUS TELEGRAMS 386, 389 TO DEPARTMENT.

RM/R

NEW SYRIAN AMBASSADOR TO SAUDI ARABIA; ZAKI AL-JABI, MADE COURTESY CALL ON ME JANUARY 29 AND IMMEDIATELY REQUESTED MY HELP IN DETERMINING WHETHER DEPARTMENT DISCUSSED WITH BARGER OF ARAMCO KING SAUD'S PROPOSAL THAT ARAMCO ADVANCE \$14 MILLION TO SARG AGAINST TAPLINE TRANSIT PAYMENTS. EXPLAINED HE WAS MEMBER OF ECONOMIC DELEGATION WHICH VISITED RIYADH EARLY LAST NOVEMBER AND WHICH REQUESTED URGENTLY CASH ASSISTANCE FROM SAG. IN PRIVATE CONFERENCE ATTENDED ONLY BY YUSUF YASIN KING INFORMED AL-JABI SAG NOT IN POSITION TO OFFER ADDITIONAL CASH LOANS. FURTHERMORE DESIRED AVOID CRITICISM CAIRO PRESS AND RADIO. HOWEVER KING UNDERTOOK TO PROMOTE ASSISTANCE FROM KUWAIT AND QATAR. AMBASSADOR ADDED THAT KING SAID HE WOULD IN FACT "INSIST" THAT ARAMCO LEND \$14 MILLION WITHOUT PREJUDICE TO NEGOTIATIONS BETWEEN SARG AND TAPLINE. AL-JABI WISHED ARAMCO COULD BE INDUCED TO PROVIDE LOAN TOTAL OF \$14 MILLION WHICH IS WHAT SYRIA BASICALLY NEEDS.

AL-JABI INDICATED NO LOAN OFFERS THUS FAR FROM KUWAIT OR QATAR. STATED IRAQ HAD "OFFERED" LOAN TO SYRIA BUT THAT SARG PREFERRED NOT BECOME OBLIGATED TO IRAQ NOR FOR THAT MATTER TO KUWAIT IN VIEW ITS STRONG INTEREST IN RETAINING DECENT RELATIONS WITH IRAQ.

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Name

Jidra 447

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Authority 949578  
By NCS NARA Date 3/5/02

POUCH OFFICIAL USE ONLY

FOREIGN SERVICE DESPATCH

FROM : American Embassy, JIDDA

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CW-4634

For Department Use Only

886a-2553/2-162

XR 12 86d 2

February 1, 1962

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								AIR	ARMY	CIA 10	NAVY	OSD 3	OCB	USIA	NSA 3			

SUBJECT: Reporting Responsibility for Saudi Arabia/Kuwait Neutral Zone

The Department is correct in assuming that trips by personnel of the Consulate General in Dhahran into the Saudi Arabia/Kuwait Neutral Zone are fully coordinated with the Embassy at Kuwait. The trip by Mr. McClelland in question was fully cleared in advance with Embassy Kuwait. As for the coordination of reporting on the Neutral Zone, I am assured that the general subjects which were to be examined by Consul McClelland in the Dhahran despatches to which CW-4634 refers were discussed with the Charge in Kuwait during the visit as well as by correspondence with the Charge in Jidda prior to the visit.

My view is that Dhahran officers should record their observations on these familiarization trips and report such observations, with comment, either (a) directly to the Department, sending a copy to the Embassy at Kuwait and to me for information and possible further comment, or (b) indirectly through the Embassy at Kuwait, where further comments can be added either in transmitting the report to the Department and to me or in a following communication. In the interest of saving time, alternative (a) would be preferable and would be quite satisfactory to me. I defer, however, to the Department's wishes in this regard and shall be glad to have these defined.

I am sure that Jidda and Dhahran will both be on the distribution list for Kuwait Embassy reports concerning the Neutral Zone. Apart from my accreditation to Kuwait and consequent interest in all reports from the Embassy there, both posts in Saudi Arabia should be kept informed, I believe, concerning the labor problems, labor regulations, and other political and administrative problems observed in the Neutral Zone, especially as they affect relations between the oil companies operating them and the Saudi Arabian government.

With respect to the Department's desire that Embassy Kuwait increase its reporting concerning the Neutral Zone, it should be noted that the economic

RHHawkins Jr/AmbHart:aan

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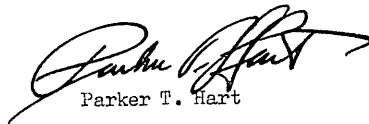
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By JCS NARA Date 3/5/02

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Page 2 of  
Encl. No. \_\_\_\_\_  
Desp. No. 215  
From Jidda

section of the Embassy consists only of Mr. Mitchell, acting DCM to Charge Mak. He is already being worked to the limit and is doing a first-rate job. He will require an assistant if reporting is to be increased.

  
Parker T. Hart

cc: Embassy Kuwait  
Congen Dhahran

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By JS NARA Date 3/5/02

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For Department Use Only

HANDLING INDICATOR

**FOREIGN SERVICE DESPATCH**

FROM : AMCONSUL DHAHRAN

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP B-203; CONGEN DESPATCH 108, NOVEMBER 1, 1961.

FEBRUARY 1, 1962

FEB. 03 1962

For Dept.	ACT	DEPT	RM/R	REP	AF	ARA	EUR	FE	NEA	CU	INR	E	P	IO	ICA
Use Only	IN	OTHER	AGR	COM	FRB	INT	LAB	TAR	TR	XMB					
	REC'D		AIR	ARMY	CIA	NAVY	OSD	OCB	USIA	NSA					

SUBJECT: INCOME TAX AND ROYALTY PAYMENTS BY ARAMCO TO THE SAUDI ARAB GOVERNMENT, FOURTH QUARTER, 1961.

THE ARABIAN AMERICAN OIL COMPANY MADE GROSS TAX AND ROYALTY PAYMENTS OF \$88, 943,862 TO THE SAUDI ARAB GOVERNMENT DURING THE FOURTH QUARTER OF 1961, COMPARED WITH \$82,031,509 IN THE FOURTH QUARTER OF 1960, AN INCREASE OF 8.4 PER CENT. THE PAYMENTS WERE ABOUT \$2.1 MILLION MORE THAN IN THE PREVIOUS QUARTER AS BOTH COMPONENTS ROSE. ASSIGNMENTS OUT OF INCOME TAX REMAINED AT \$6,500,000 PER MONTH.

FOLLOWING IS A TABULATION OF GROSS TAX AND ROYALTY PAYMENTS MADE BY ARAMCO TO THE SAUDI ARAB GOVERNMENT FROM OCTOBER THROUGH DECEMBER 1961. THESE FIGURES HAVE BEEN MADE AVAILABLE TO THE CONSULATE GENERAL ON A CONFIDENTIAL BASIS.

MONTH	ROYALTY	COMPANY INCOME TAX ON 1961 INCOME	TOTAL GROSS AMOUNT PAID
OCTOBER	\$9,975,816	\$20,303,167	\$30,453,983
NOVEMBER	8,893,598	20,303,167	29,196,765
DECEMBER	8,989,947	20,303,167	29,293,114

THE DETAILED MONTHLY ARAMCO PAYMENT FIGURES FOR OCTOBER, NOVEMBER AND DECEMBER 1961 ARE ENCLOSED.

**CONFIDENTIAL**

SCKEITER:EP

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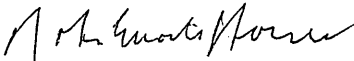
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By NTS NARA Date 3/5/02

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Page 2 of  
Encl. No. \_\_\_\_\_  
Desp. No. 181  
From DHAHRAN

I/ INCLUDES \$175,000 PAID UNDER ARTICLE 7 OF ARAMCO'S DECEMBER 30, 1950, AGREEMENT TOWARDS THE EXPENSES, SUPPORT AND MAINTENANCE OF REPRESENTATIVES OF THE SAUDI ARAB GOVERNMENT CONCERNED WITH THE ADMINISTRATION OF ARAMCO'S OPERATIONS.

  
JOHN EVARTS HORNER  
AMERICAN CONSUL GENERAL

ENCLOSURES: 21

ARAMCO'S PAYMENTS TO THE  
SAUDI ARAB GOVERNMENT FOR  
OCTOBER, NOVEMBER AND  
DECEMBER 1961. (5 COPIES)

COPY TO:

AMEMBASSY JIDDA (WITH ENCLOSURE)

CONFIDENTIAL

*d. 18/1 Dhahran  
2-1-62*

*Net*

ARABIAN AMERICAN OIL COMPANY

PAYMENTS TO THE SAUDI ARAB GOVERNMENT

OCTOBER 1961

Net Crude Runs from Field Storage During Month  
of September 1961 (Tons)

5,848,516

Gross Amounts Paid:

Royalty - Crude

\$ 9,975,816

Company Income Tax on 1961 Income

20,303,167

Article 7 of December 30, 1950 Agreement

175,000

Total Gross Amounts Paid

\$ 30,453,983

Deductions from Company Income Tax:

Assignment out of 1961 Income Tax

6,500,000

NET FUNDS RECEIVED DIRECTLY BY SAUDI ARAB  
GOVERNMENT FROM THE ARABIAN AMERICAN OIL  
COMPANY

\$ 23,953,983

Distribution of Net Funds by Currencies

U. S. Dollars

\$ 13,104,316

Pounds Sterling

10,757,225

New Francs

92,442

Saudi Riyals

-

\$ 23,953,983

Amounts are stated herein in U. S. Dollars or U. S. Dollar  
equivalents per agreements.

Dhahran, Saudi Arabia  
October 22, 1961

ARABIAN AMERICAN OIL COMPANY  
PAYMENTS TO THE SAUDI ARAB GOVERNMENT  
DECEMBER 1961

Net Crude Runs from Field Storage During Month of November 1961 (Tons)	<u>5,227,013</u>
---	------------------

<u>Gross Amounts Paid:</u>	
Royalty - Crude	\$ 8,989,947
Company Income Tax on 1961 Income	<u>20,303,167</u>
Total Gross Amounts Paid	\$29,293,114

<u>Deductions from Company Income Tax:</u>	
Assignment out of 1961 Income Tax	<u>6,500,000</u>

<u>NET FUNDS RECEIVED DIRECTLY BY SAUDI ARAB GOVERNMENT FROM THE ARABIAN AMERICAN OIL COMPANY</u>	<u>\$22,793,114</u>
---	---------------------

Distribution of Net Funds by Currencies

U. S. Dollars	\$12,660,384
Pounds Sterling	10,040,288
New Francs	<u>92,442</u>
	<u>\$22,793,114</u>

Amounts are stated herein in U. S. Dollars or U. S. Dollar  
equivalents per agreements.

Dhahran, Saudi Arabia  
December 26, 1961

ARABIAN AMERICAN OIL COMPANY  
PAYMENTS TO THE SAUDI ARAB GOVERNMENT  
NOVEMBER 1961

Net Crude Runs from Field Storage During Month of October 1961 (Tons)	<u>5,195,354</u>
--	------------------

<u>Gross Amounts Paid:</u>	
Royalty - Crude	\$ 8,893,598
Company Income Tax on 1961 Income	<u>20,303,167</u>
Total Gross Amounts Paid	\$29,196,765

<u>Deductions from Company Income Tax:</u>	
Assignment out of 1961 Income Tax	<u>6,500,000</u>

<u>NET FUNDS RECEIVED DIRECTLY BY SAUDI ARAB GOVERNMENT FROM THE ARABIAN AMERICAN OIL COMPANY</u>	<u>\$22,696,765</u>
---	---------------------

Distribution of Net Funds by Currencies

U. S. Dollars	\$12,600,559
Pounds Sterling	10,003,764
New Francs	<u>92,442</u>
	<u>\$22,696,765</u>

Amounts are stated herein in U. S. Dollars or U. S. Dollar  
equivalents per agreements.

Dhahran, Saudi Arabia  
November 26, 1961





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FOREIGN SERVICE DESPATCH															182				
FROM : AMCONSUL DHAHRAN															NO. 886a.2553				
TO : THE DEPARTMENT OF STATE, WASHINGTON.															DATE FEBRUARY 1, 1962				
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					AIR	ARMY	CIA	NAVY	OSD	OCB	USIA	NSA							

SUBJECT: PETROLEUM - ARAMCO SETS NEW RECORDS; 1962 FORECAST REVISED UPWARD.

BEGIN UNCLASSIFIED

ACCORDING TO THE ARABIAN AMERICAN OIL COMPANY PUBLICATION, SUN AND FLARE, OF JANUARY 10, 1962, ARAMCO SET NEW ANNUAL PRODUCING AND REFINING RECORDS IN 1961 AND A NEW MONTHLY PRODUCTION RECORD IN DECEMBER, 1961. PRODUCTION FOR THE YEAR WAS 1,392,518 BARRELS PER DAY, UP 11.7 PER CENT OVER 1960, WHILE REFINING WAS UP 10.6 PER CENT TO 248,894 BARRELS PER DAY, CONSIDERABLY MORE THAN THE REFINERY'S RATED CAPACITY. PRODUCTION IN DECEMBER WAS 1,555,559 BARRELS PER DAY, UP 19.6 PER CENT FROM NOVEMBER. ON DECEMBER 22, PRODUCTION REACHED 1,743,946 BARRELS.

END UNCLASSIFIED

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ACCORDING TO MR. THOMAS C. BARGER, PRESIDENT OF ARAMCO, THE FORECAST FOR 1962 PRODUCTION HAS BEEN REVISED UPWARD BY 150,000 BARRELS TO 1,430,000 BARRELS PER DAY. ALTHOUGH EUROPE'S COLD WINTER IS IMPORTANT AT THE MOMENT, THE IMPORTANT LONG-RANGE FACTOR IS THAT A MEDITERRANEAN STORM HAS DELAYED WORK ON THE LOADING FACILITIES AT MERSA BREGA, THE OUTLET FOR STANDARD OIL OF NEW JERSEY'S ZELTEN FIELD IN LIBYA. AS A RESULT JERSEY WILL NOT BE ABLE TO SUPPLY AS MUCH OIL FROM

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By JCS NARA Date 3/5/02

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Encl. No. \_\_\_\_\_  
Desp. No. 182  
From DHAHRAN

THAT FIELD AS ORIGINALLY PLANNED.

PRODUCTION FOR JANUARY IS NOW FORECAST AT  
1,572,000 BARRELS PER DAY WHILE TAPLINE SHIPMENTS ARE  
AT THE RATE OF 482,000 BARRELS PER DAY, APPROXIMATELY  
CAPACITY.

  
JOHN EVARTS HORNER  
AMERICAN CONSUL GENERAL

COPY TO:

AMEMBASSY JIDDA  
AMEMBASSY TRIPOLI

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Authority 949578  
By JS NARA Date 3/5/02

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## FOREIGN SERVICE DESPATCH

FROM : AMCONSUL DHAHRAN

187

886.2003/2-362

TO : THE DEPARTMENT OF STATE, WASHINGTON.

FEBRUARY 3, 1962

REF : CONGEN DESPATCH 269, APRIL 25, 1961; CERP D-15, 18.

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	ON			AIR	ARMY	CIA	NAVY	OSD	OCB	USIA	164	3				

SUBJECT: ARAMCO LOCAL PURCHASES, DOUBLING IN YEAR, AID DEVELOPMENT OF SAUDI ARABIAN COMMERCE.

ACCORDING TO THE ARAMCO PUBLICATION SUN AND FLARE OF JANUARY 31, 1962, ARAMCO'S LOCAL PURCHASES TOTALLED 11.3 MILLION DOLLARS DURING 1961, MORE THAN TWICE THE 1960 FIGURE. AS A RESULT, LOCAL MERCHANTS HAVE BEEN ABLE TO START DEALING IN NEW ITEMS AND TO DEVELOP THEIR FACILITIES AND ORGANIZATION.

ADDITIONAL DETAILS ARE IN THE ATTACHED COPY OF THE SUN AND FLARE ARTICLE.

*John Evarts Horner*  
JOHN EVARTS HORNER  
AMERICAN CONSUL GENERAL

ENCLOSURE: *W*

COPY OF AN ARTICLE  
FROM JANUARY 31ST ISSUE  
OF SUN AND FLARE.

COPY TO:

AMEMBASSY JIDDA

1962 FEB 19 AM 10 18

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Page I of  
Encl. No. I-187  
Desp. No.  
From DHAHRAN

THE FOLLOWING ARTICLE IS TAKEN FROM THE JANUARY 31, 1962, ISSUE OF ARAMCO'S WEEKLY PUBLICATION SUN AND FLARE.

**LOCAL PURCHASES SOAR TO NEW HIGH;  
\$11.3 MILLION DOUBLES 1960 LEVEL**

DHAHRAN'S PURCHASING DEPARTMENT ESTABLISHED A NEW HIGH FOR 1961 OF APPROXIMATELY \$11.3 MILLION IN MATERIAL BOUGHT INSIDE THE KINGDOM.

IN SETTING THIS RECORD, 1960 LOCAL PURCHASES OF \$4.6 MILLION WERE MORE THAN DOUBLED. THE NEW LEVEL EXCEEDED BY SOME 15 PER CENT A PREVIOUSLY ANNOUNCED GOAL FOR LAST YEAR OF \$9.6 MILLION.

PART OF THIS LARGE INCREASE CAME FROM MAJOR ITEMS PURCHASED LAST YEAR FOR THE FIRST TIME FROM SAUDI ARAB SUPPLIERS. THESE ITEMS INCLUDED LINE PIPE FOR NEW SAFANIYA FIELD FACILITIES, REFINERY CHEMICALS, DRILLING ADDITIVES, MOTOR VEHICLES, AND EXPANSION OF GENERAL COMMISSARY GOODS.

NOT INCLUDED IN THE RISING LOCAL PURCHASING FIGURES IS AN EVER-INCREASING VOLUME OF FRESH PRODUCE, GROWN LOCALLY AND SOLD DIRECTLY TO THE CONSUMER.

WITH INCREASED DEMANDS OF THE LOCAL ECONOMY, COMPETITION HAS INCREASED SHARPLY WITH MANY NEW VENDORS ENTERING THE MARKET. AND THE LOCAL ENTREPRENEUR HAS BEEN ABLE TO DEVELOP ORGANIZATION, FOLLOW-THROUGH, PLANNING AND LOGISTICAL SKILLS TO MEET THIS EXPANDING ECONOMY.

BUYERS FROM DHAHRAN PURCHASING NOW PLACE ORDERS WITH SOME 200 VENDORS THROUGHOUT THE COUNTRY.

COMPANY OFFICIALS ARE WATCHING WITH INTEREST THE RAPID DEVELOPMENT OF A COMMON CARRIER SERVICE. A TREMENDOUS ADVANCE IN EFFICIENCY, THIS INVOLVES DELIVERY VAN SERVICE OF MATERIAL DIRECTLY FROM WAREHOUSES TO OUTLETS.

WAREHOUSING SPACE IN AL-KHOBAR AND DAMMAM INCREASED CONSIDERABLY DURING 1961 SO THAT ADDITIONAL MAJOR ITEMS COULD BE PURCHASED IN ADVANCE AND STORED UNTIL NEEDED. SOME OF THESE FACILITIES WERE AIR CONDITIONED.

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Page 2 of  
Encl. No. 1  
Desp. No. 187  
From DHAHRAN

ITEMS STOCKED IN LOCAL WAREHOUSES INCLUDED  
COMMISSARY AND CANTEEN ARTICLES, REFINERY OPERATING  
CHEMICALS, DRILLING MUDS, REFRIGERATORS, PAINTS, TIRES,  
TUBES AND BATTERIES.

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AIR POUCH PRIORITY		CONFIDENTIAL (Security Classification)		DO NOT TYPE IN THIS SPACE	
FOREIGN SERVICE DESPATCH					
FROM :	AmEmbassy JIDDA	DESP. NO.	219	February 8, 1962	
TO :	THE DEPARTMENT OF STATE, WASHINGTON				
REF :	CERP D-15				
ACTION		DEPT.			
For Dept.	REC'D	IN	OTHER		
Use Only	2-20	REP-1 RM/R-2	E-3	INR-5	AID-11
		INT-7	COM-17	OSD-3	ARMY-3
		NAUT-3		NSA-3	CIA-7
SUBJECT: CONVERSATION WITH SAUDI PETROLEUM MINISTER 'ABD ALLAH TARIKI					

A visit to Riyadh enabled the reporting officer to call on Shaykh 'Abd Allah TARIKI, Saudi Minister of Petroleum and Mineral Resources, at his office on January 30. The conversation took place across the Minister's desk piled high with an amazing variety of oil periodicals, among which were prominently placed copies of Wanda JABLONSKI's "Petroleum Intelligence Weekly". Highlights are reported below.

After a few welcoming remarks, the Minister commented that he had been continuously present in Saudi Arabia for nearly four months and that this was about the longest unbroken stay at home in his memory. Affairs of his own ministry plus those of the Cabinet and the Supreme Planning Board had kept him extremely busy, he said, but there would be less time for this business in the months ahead in view of his spring travel schedule. He hoped to fly to Venezuela in February to attend a preliminary Organization of Petroleum Exporting Countries (OPEC) meeting which would prepare the agenda for the April OPEC Conference at Geneva. During early May he planned to attend the semi-annual Aramco Board of Directors meeting at San Francisco. (The Minister did not mention his trip to Japan scheduled for April, but it is generally understood in Riyadh that he has no intention of canceling this visit).

Tariki said that OPEC was now beginning to receive the technical studies for which it had contracted with several private firms in Europe and America, and would be considering these reports at its Geneva Conference. He said there were three principal subjects: the petroleum pricing structure, the concept of pro-rationing of crude oil production, and the question of oil companies' returns on investment. He explained that each of the OPEC contractors would be covering all three topics and that, therefore, OPEC members would have the benefit of more than one view on each topic.

The reporting officer mentioned that Tariki might not be aware of the recent departure from Beirut of Mr. C. J. DWYER and the abolishment of his position as U.S. Regional Petroleum Officer. The Minister said he had learned of this in a personal letter from Mr. Dwyer. He thereupon spent several minutes expounding his personal view that the termination of this position had been a major mistake. Tariki asserted that it was essential for U.S. officials in Washington to have the benefit of the reports of a trained petroleum specialist on Government-company problems in the Middle Eastern producing countries. He declared that for many

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From Jidda

years he had been convinced that officials of the American embassies in the Middle East failed to report without prejudice the facts and conditions surrounding oil company operations and their government relations. For example, said the Minister, embassy officials in Jidda took the Aramco view on everything, those in Baghdad took the IPC view, etc. For this reason the reports of an active, experienced petroleum specialist not under the influence of one of the producing companies was essential. Tariki concluded this rather familiar lecture with a verbal attack on Mr. Garry OWEN, the Aramco representative in Washington, and referred to him as "the Middle Eastern oil companies' Ambassador in Washington". (This was not the first time that Tariki has expressed to the writer what appears to be, in part, a strong personal dislike for Mr. Owen.)

The Minister was asked to comment on local press demands for the formation of a national petroleum company in Saudi Arabia, and on widespread rumors that plans were afoot to turn the Saudi Arabian Refining Company (SARCO) into a government-controlled company. He replied that he was well aware of this current of opinion and that in fact something of the sort had been attempted but that "the idea did not work". He said this was not an active subject at the moment.

COMMENT: In a subsequent conversation with Aramco's Riyadh Representative, Mr. Ronald METZ, it was learned that Tariki has indeed been extremely busy during the winter with a variety of government affairs unrelated to petroleum. According to Metz, Tariki has been active on a number of cabinet committees including the preliminary steering committee, which prepares the cabinet agenda, and the debt committee, which has been occupied mainly in fighting off the claims of the ex-chairman of the Riyadh Bank, Sayyid Hassan SHARBATLI. Metz theorized that this industrious activity may have been partly responsible for Tariki's recent decision to decentralize his Petroleum Ministry--a policy which now makes it necessary for all Aramco-Saudi Government correspondence to be channeled through the Petroleum Ministry's Directorate General in Dammam rather than direct to the Ministry in Riyadh (see Dhahran despatch 156, January 8).

Metz indicated that petrochemical possibilities were again on the horizon, and that a representative of the London firm of Snodgrass and Company was expected in Riyadh during February to discuss the utilization of natural gas in a fertilizer plant.

It is not unusual for Tariki to sermonize on the theme of alleged oil company pressure on the U.S. Government, and vice versa. The oral discourse described in paragraph 4 of this despatch was a typical expression of this attitude.

  
Parker T. Hart

cc: Amconsul DHAHRAN

Dept pass BAGHDAD, BEIRUT, KUWAIT, CAIRO, TEHRAN, CARACAS

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 FOREIGN SERVICE DESPATCH  
 FROM : AmEmbassy JIDDA  
 TO : THE DEPARTMENT OF STATE, WASHINGTON.  
 REF : CERP, D-15, D-10.  
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 886a.2553/2-1062  
 XR 886a.10  
 XR 886a.00  
 DESP. NO. 220  
 February 10, 1962  
 DATE

20 For Dept. Use Only	ACTION NEA-4 REC'D 2-19-62	DEPT. IN F O OTHER CIA-7 Com-10 TAR-2 TR-2 FRB-2 INT-7 NSA-3 OSD-3
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SUBJECT: ARAMCO ESTIMATES THE QUANTITATIVE BENEFITS OF ITS EXPENDITURES TO THE SAUDI ECONOMY

Asked by the Saudi Petroleum Ministry to provide an estimate of the company's expenditures benefiting the economy of the Eastern Province, the Arabian American Oil Company (Aramco) has prepared a schedule detailing such expenditures and including, in addition, a tabulation of company payments benefiting Saudi Arabia as a whole. A copy of this document, taking the form of a letter dated January 30, 1962, from Aramco's Dammam representative to the ministry's Director General, has been made available by the company's Jidda representative and is enclosed. The estimates cover the calendar years 1961 and 1962.

COMMENT: From these Aramco estimates it can be calculated that for every five dollars of direct oil tax and royalty payments by Aramco to the Saudi Government, over one dollar's worth of additional benefits and payments is received by the Saudi economy. The great variety of these additional tangible benefits from the presence of a modern oil industry is made strikingly evident by the enclosure. Expenditures producing these benefits can be broadly categorized into three principal types: direct Saudi Riyal payroll disbursements, payments for local goods and services, and miscellaneous education-health-housing-community improvement expenditures. It is not surprising that, if direct oil tax and royalty payments are set aside, riyal payroll disbursements represent the largest single expenditure in this tabulation.

*Parker T. Hart*  
 Parker T. Hart

Enclosure: *att m*  
 As stated

cc: Amcongen DHAHRAN

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Page 1 of  
Encl. No. 1  
Desp. No. 220  
From Jidda

ARABIAN AMERICAN OIL COMPANY  
DAMMAM  
SAUDI ARABIA

January 30, 1962

EXPENDITURES BENEFITING  
SAUDI ARAB ECONOMY

No. 6-119-62

Director General  
Ministry of Petroleum and Mineral Resources  
Dammam

Dear Sir:

Our Comptroller's Organization recently received an informal request from your Auditing Staff to provide an estimate of Aramco expenditures benefiting the economy of the Eastern Province of the Kingdom. In response to this request, attached is a schedule detailing Aramco's estimated expenditures for 1961 and 1962 benefiting the Saudi Arab economy. The schedule details estimated expenditures primarily of benefit to the Eastern Province, as well as expenditures primarily of benefit to the Kingdom of Saudi Arabia as a whole. We have classified these expenditures as being of benefit to the Eastern Province or to the Kingdom of Saudi Arabia to the best of our judgment.

The following tabulation summarizes the information shown on the attached schedule:

	Estimated (In Thousands of Dollars)	
	1961	1962
Expenditures primarily of benefit to the Eastern Province	\$ 69,268	\$ 71,735
Expenditures primarily of benefit to the Kingdom of Saudi Arabia as a whole	358,000	373,267
	\$ 427,268	\$ 445,002

These estimates are believed to be as accurate as currently available information permits and are not guarantees or commitments by the Company.

Your Auditing Staff suggested that we also provide estimates of the Company's capital expenditures during the years 1961 and 1962. Capital expenditures in 1961 are estimated at \$33,900,000 and in 1962 at \$33,200,000. This caption does not appear on the attached schedule because a portion of such expenditures are included under such items as Material, Supplies, Services and Rental Payments, Payments to Saudi Arab Contractors and the like.

With kind regards.

Sincerely yours,

Original signed by  
M. D. Carter  
THE COMPANY REPRESENTATIVE  
DAMMAM

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Expenditures Primarily of Benefit to the Kingdom of Saudi Arabia As a Whole

<u>Public Welfare Expenditures</u>		
Scholarships for Saudi Arab Students	\$ 40	\$ 175
Miscellaneous Donations	35	35
Total	\$ 75	\$ 210
<u>Payments to Governmental Agencies</u>		
Income Taxes	\$237,957	\$ 251,231
Royalties	113,398	115,656
Income Taxes Paid by Non-Saudi Company Employees	5,000	4,500
Fixed Payments for Government Services (Article 7, December 30, 1950 Agreement)	700	700
Free Petroleum Products for the Saudi Arab Government	440	355
Income Taxes Paid by Non-Saudi Service Organizations and Their Employees	265	250
Rentals	165	165
Total	\$357,925	\$ 373,057
Total Expenditures Primarily of Benefit to the Kingdom of Saudi Arabia As a Whole	\$358,000	\$ 373,267
GRAND TOTAL	\$427,268	\$ 445,002

In addition to the above, the Company entered into agreements for loans to two local municipalities amounting to \$8,500,000, the repayment of which was guaranteed by Royal Decree of March 9, 1961. This covers \$4,500,000 for the al-Khobar Water and Sewer System and \$4,000,000 for the Dammam Water and Sewer System. Currently, the Company is also negotiating arrangements to extend financial assistance of approximately \$3,000,000 to the Dhahran Electrical Supply Company.

At the present time no definite schedule has been established as to when any portion of these funds will be disbursed.

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Desp. No. 220  
From Jidda

ARABIAN AMERICAN OIL COMPANY  
EXPENDITURES BENEFITING THE SAUDI ARAB ECONOMY  
(In Thousands of Dollars)

	Est. 1961	Est. 1962
<u>Expenditures Primarily of Benefit to the Eastern Province</u>		
<u>Payments to or Expenditures on Behalf of Employees</u>		
Saudi Riyal Payroll and Benefits	\$ 25,305	\$ 25,700
Free Medical Services for Saudi Employees and Dependents	5,350	5,500
Saudi Employee Housing Loans - Net Cash Payments	2,900	3,000
Schools for Children of Saudi Arab Employees	1,025	2,900
Out-of-Kingdom Training of Saudi Employees	350	425
Employee Training - Voluntary Only	155	175
Thrift Plan - Company Contribution Withdrawals	135	145
Saudi Employee Pulmonary Tuberculosis Program - Labor Costs	45	50
Total	\$ 35,265	\$ 37,895
<u>Payments to Local Industry (Includes Minor Payments in Other Provinces)</u>		
Materials, Supplies, Services and Rentals Payments	\$ 16,200	\$ 16,300
Payments to Saudi Arab Contractors	5,160	4,865
Local Expenditures by U.S. Dollar Employees	3,000	2,500
Total	\$ 24,360	\$ 23,665
<u>Public Welfare Expenditures</u>		
Free Medical Services, Research, and Education for Saudi Public	\$ 3,200	\$ 3,300
Development of and Improvement to Local Communities	1,230	1,260
Maintenance and Construction Expense Directly Related to Public Usage of Company Built Roads	700	1,085
Technical Assistance to and Promotion of Local Enterprise	405	500
Miscellaneous Public and Employee Welfare Expenditures	125	125
Miscellaneous Donations	28	30
Total	\$ 5,688	\$ 6,300
<u>Payments to Governmental Agencies</u>		
Freight Payments to Saudi Government Railroad	\$ 1,950	\$ 1,950
Customs Duties	1,200	1,150
Visa, Quarantine, Permit, Postage, Cables, Etc.	805	775
Total	\$ 3,955	\$ 3,875
Total Expenditures Primarily of Benefit to the Eastern Province	\$ 69,268	\$ 71,735

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FOREIGN SERVICE DESPATCH

886w. 2553/2-1062  
XR 886w. 110

FROM : AmEmbassy JIDDA

TO : THE DEPARTMENT OF STATE, WASHINGTON.

February 10, 1962  
DATE

REF : CERP, B-200; Embdes 188, Jan. 18, 1962

20 For Dept. Use Only	ACTION	DEPT.
	REC'D	OTHER
	NEA-4	RM/R-2 REP-1 INR-5 E-3 AID-11
	2-19-62	CIA-7 COM-10 TAR-2 TR-2 FRB-2 INT-7 NSA-3 OSD-3

SUBJECT: ARAMCO'S ANALYSIS OF SAUDI GOVERNMENT BUDGET FOR 1381-82. XMB-2 ARMY-3 NAVY-3

A copy of the analysis of the present Saudi Government budget made by the Economics Department of the Arabian American Oil Company (Aramco) has been made available through the courtesy of the company's Jidda representative. The enclosure to this despatch is a copy of the first two pages of this Aramco report; in substance it is a summary of the report as a whole. The Embassy has no disagreement with the conclusions expressed in the Aramco analysis, which bears the company's classification of "confidential".

The attached summary makes no reference, however, to two interesting topics which are discussed in the main body of the Aramco report, namely the following:

1) Revenues from Oil (revenue sections 1 and 2): Aramco inserted in its analysis the following table which shows that according to company estimates the Saudi Government's budgeted receipts for oil royalties and income tax payments are understated by about 7 per cent:

"ESTIMATE OF SAG RECEIPTS  
FROM OIL ROYALTIES & INCOME TAXES, 1381-82  
(In Millions of SR)\*"

Source	Royalty Payments	Income Tax Payments	TOTAL
Aramco a/	489	1,076	1,565
Getty	78	19	97
Arabian Oil (Japanese)	40	78	118
Individual Aramco Employees	--	20	20
Total, Economics Department Estimate	607	1,193	1,800
Total, Budget Estimate b/	564	1,117	1,681
Difference	43	76	119

a/ Aramco figures are the Riyal equivalent of those supplied to SAG, on September 2, 1961, for the forthcoming budget year (8 December 1961 -- 27 November 1962). In the case of income tax payments, the gross amount payable is shown, as there is no entry in the published version of the SAG budget for advances from banks.

\* 4.5 Saudi Riyals (SR) = \$1.00 U.S.

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Desp. No. 222  
From Jidda

b/ The budget also includes an unknown, but probably small amount representing corporate and individual income taxes from non-oil sources."

The Saudi Government's estimates for separate royalty and income tax receipts from each company were not published, but were obtained by the Embassy and transmitted in despatch 183, page 2.

2) Public Payments and Allocations (expenditure section 31): The Aramco analysis points out that payments are made under this section of the budget to a wide variety of recipients, including surviving members of the al-RASHID family, Saudi descendants of families considered to have rendered valuable services to the royal family, and various bedouin tribes. The report adds that the 1380-81 payment of SR 9 million for relief of bedouins in the drought stricken northern area was made under this budget section and that SR 14 million has been allocated for the same purpose in the new budget.

  
Parker T. Hart

Enclosure: *att 1*  
As stated *all m.m.*

cc: Amconsul DHAHRAN

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Page 1 of  
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Desp. No. 222  
From Jidda

COMMENTS ON THE SAUDI ARAB GOVERNMENT  
BUDGET FOR HIJRAH 1381-82

(Initial Section only, consisting of a summary of the entire 13-page report)

1. The Saudi Arab Government Budget for Hijrah 1381/82 (8 December 1961 -- about 27 November 1962) is SR 2,166 million, or 21% higher than that of last year. Last year's budget, in contrast, was only 9% more than the previous year's post-devaluation budget.

2. The text of the new budget instructions is almost identical with that of last year, the only difference being the addition of clauses amplifying the restrictions on promotions and pay increases within the civil service which were included in last year's budget instructions.

3. The bulk (79%) of the revenues are derived from oil royalties and from income taxes realized almost entirely from oil companies and their foreign employees. The revenue items which registered the largest proportionate increases were: the General Reserve for Settling Debts, up 105% from 1380/81; Government Sales, up 100% from 1380/81; and State Property Rentals, up 77% from 1380/81. The heaviest contributors to the increase in the volume of new revenues were the Income Tax, which rose from SR 870 million in 1380/81 to SR 1,117 million in 1381/82, and the General Reserve for settling debts, which rose from SR 78 million to SR 159 million. Expected revenues from customs duties declined slightly compared with last year -- from SR 155 million to SR 149 million.

4. Numerous changes in the classification of expenditure headings were made in this year's budget. The most important of them were: the introduction of a new item entitled "Office of the Crown Prince", the introduction of a budget for the new Ministry of Labor and Social Affairs, and the transfer of ports from the Ministry of Finance to the Ministry of Communications.

5. The most important changes in the proportionate distribution of the budget among major expenditure categories were: an increase in economic development projects from 17% of the expenditures total to 19%; an increase in welfare services from 12% to 13%; a decrease in Royal Family items from 14% to 12%; and a reduction of debt repayments from 13% to 10%.

6. The Ministries which received the largest proportionate increase in their budgets were Labor and Social Affairs, Defence and Aviation, Agriculture, Foreign Affairs, and Commerce.

7. The largest single item in the expenditure category is the development projects item entitled "Expansion of the Two Holy Mosques and New Projects," up from SR 291 million to SR 400 million. The largest increase in budgeted expenditures went to the Ministry of Defence and Aviation, which received SR 366 million compared with SR 224 million in 1380/81, an increase of over SR 142 million. SR 88 million of this increment was assigned to the Saudi Arabian Airlines and the Department of Civil Aviation and the remaining SR 55 million to the General Bureau and the Army.

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From Jidda

8. Details of the projects item have not yet been announced because the Supreme Planning Board, which is responsible for making the allocations, has not yet completed its deliberations.

9. The amount allocated to debts is the same this year as last (SR 225 million).

10. There were no significant reductions in amounts assigned to major budget categories.

11. The amount allocated to wages, salaries and benefits (Section I) continues to rise rapidly (20% since last year), although not so rapidly as general expenses (Section II) (26% since last year), and Development Projects (Item 34) (37% since last year). Since 1379/80, the Government's payroll for organizations other than the armed services has risen by more than 40%.

12. The Ministries of Education and the public security outlays of the Ministry of Interior have accounted for more than half of the increment in wages and salaries received by the 10 ministries which publish these figures.

13. It is probable that, despite strong criticism from at least one influential budget advisor, this proliferation of Government employees will continue. The Government's present employment policy is to improve its bureaucratic machinery mainly by adding qualified people to its payroll. No efforts are being made to discharge the large number of unqualified people inherited in the period before the establishment of a civil service. There are now, exclusive of the Armed Services, about 27,000 members of the regular civil service, and about 25,000 semi-skilled and unskilled Government workers, which makes the Government by far the largest single employer in the Kingdom.

14. Caution should be used in assuming that actual expenditures will necessarily coincide with the initial allocations made in this budget. If the present political climate remains unchanged, it is likely that any deviation from the planned expenditures will probably be in the direction of an accumulation of unspent balances resulting from the existence of labor and other resource bottlenecks which may retard development plans.

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(Embassy note: In paragraph no. 11 above, references to Sections I, II and III pertain to the three general categories of expenditures as outlined in enclosure no. 4 of Embdes 188, Jan. 18, 1962, in which these three categories are termed chapters rather than sections.)

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ORIGIN/ACTION

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L	FBO	ALD 20
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TR	XMB	AIR
ARMY	CIA	NAVY
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OSD	USIA	NSA
16		3

DEPARTMENT OF STATE

# AIRGRAM

(Departmental and Foreign Service)

886a.2553/12-1462

CONFIDENTIAL

TO : SECSTATE WASHINGTON

INFO : AMEMBASSY JIDDA A-28 AMEMBASSY TEHRAN A-3  
 AMEMBASSY BAGHDAD A-6 AMEMBASSY LONDON A-8  
 AMEMBASSY KUWAIT A-8 AMCONSUL KHORRAMSHAHR A-2

FROM : AMCONSUL DHAHRAN DATE: FEBRUARY 14, 1962

SUBJECT: ARAMCO PRODUCTION AND SAG RELATIONS

REF : CONTEL ACTION DEPT 209, INFO JIDDA 264, LONDON, KUWAIT, BAGHDAD, TEHRAN, CARACAS, BEIRUT, KHORRAMSHAHR UNN.  
 JIDDA DESPATCHES 192, JANUARY 20; 208, JANUARY 27.

1. OFFTAKERS INFORMED ARAMCO FEBRUARY 10 THAT REVISED PRODUCTION ESTIMATE 1962 1,400,000 BPD; 1963 SAME.

2. ARAMCO HAS DISCOVERED THAT FADHILI 2 IS MUCH HIGHER ON STRUCTURE THAN DISCOVERY HOLE. PRODUCTION FROM ARAB ZONE, DRY IN FADHILI 1, EXPECTED.

3. CONGEN OFFICER HAS SEEN ARAMCO REPLIES (NOT YET SENT) TO SOME OF PETMIN LETTERS. COMMON THEME DISAPPOINTMENT SAG INABILITY ACCEPT COMPANY POINT OF VIEW, WILLINGNESS GO TO ARBITRATION.

A. PETMIN LETTER 5000/21/18/1 OF JANUARY 3 STATES ARAMCO FAILURE POST OWN PRICES, SELL ALL BUYERS A FAILURE TO DISCHARGE OBLIGATIONS OF CONCESSION AGREEMENT. ARAMCO LETTER 6-328-62 DENIES CONTRARY AGREEMENT; STATES ARAMCO PRACTICE BEST FOR SAUDI ARABIA, OFFERS ARBITRATION IF DESIRED.

B. ARAMCO LETTER 6-391-62 REJECTS CLAIM OF PETMIN LETTER 5428/3/8/15 OF JANUARY 22 THAT ARAMCO OWES 22 MILLION DOLLARS ON BASIS OLD POSTED PRICES

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FORM DS-323 11-61

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AND AGAIN OFFERS ARBITRATE.

C. PETMIN LETTER II7 ALLOWS FIFTY PER CENT  
1960 EXPENSES ARAMCO NEW YORK OFFICE AND ARAMCO  
OVERSEAS, NOTHING FOR 1961 AND SUBSEQUENT. ARAMCO  
LETTER 6-331-62 STATES A NECESSARY EXPENSE, ARAMCO  
WILL CONTINUE COUNT AS EXPENSE, ARBITRATION ACCEPTABLE.

  
HORNER

<sup>4</sup>  
SCKEITER:EP

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By JCS NARA Date 3/5/02

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FROM :	AmEmbassy JIDDA	DESP. NO.	February 19, 1962
TO :	THE DEPARTMENT OF STATE, WASHINGTON.		
REF :	CERP, D-15		

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SUBJECT: ARAMCO ISSUES OFFICIAL RETORT TO SERIES OF CRITICAL ARTICLES BY SAMIR SHAMMA		

Under the title "Facts --- and Comments", Jidda daily al-Bilad contained on January 22 the Arabic text of an Arabian American Oil Company (Aramco) statement precipitated by a series of ten long articles critical of Aramco published in the same paper between November 1-22, 1961. This series was written by Jidda attorney Samir SHAMMA, a native Palestinian of Saudi citizenship who by virtue of authorship of occasional books and articles about the Middle Eastern oil industry, legal counseling for oil companies, and advising of the Eastern Aden Protectorate rulers has built up a reputation in the Peninsula as one of the most prolific Arab oil spokesmen.

The Aramco statement, enclosed in full English text, was designed to put on record corrections of some of Mr. Shamma's misstatements of fact and clarifications of Aramco's position on certain of the matters raised. Among the points refuted by the company are Shamma's charges that Aramco owes \$200 million to the Saudi Government over the so-called Sidon claim, that the growth rate of Aramco's crude oil and refinery production has not kept pace with neighboring states, that through various devices the company deprives Saudi Arabia of its 50 per cent share of profits, and that Saudi employees suffer from all sorts of discrimination with respect to job responsibility, taxation, training, etc.

While the Shamma series did give a grossly distorted picture of the Aramco operations, and suffered from certain statistical errors, it did manage to call attention to some of the more vulnerable chinks in the company's armor. These included the relative inattention of Aramco to exploration and drilling operations compared to some neighboring companies, notably those in Iran and Kuwait, and the degree to which the company's basic policy decisions are controlled by the four owner company representatives on the Aramco board without taking account of the experience and views of Aramco's own officials or the Saudi board members. The enclosed Aramco statement makes no comment on these matters.

Enclosure: *[Signature]*  
As stated

cc: Amconsul.DHAHRAN

*[Signature]*  
Parker T. Hart

WDWolle/eh

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From Jidda

STATEMENT BY ARABIAN AMERICAN OIL COMPANY  
(Published in Al-Bilad, January 22, 1962)

"We have read with surprise the series of articles by Ustadh (Professor) Samir Shamma in recent issues of al-Bilad about the Arabian American Oil Company and its 1960 Report of Operations to the Saudi Arab Government.

This series contains so many errors that conclusions drawn from them can only contribute to misunderstanding of the Company's operations. We feel compelled, therefore, to correct at least a few of the mis-statements of fact, and to clarify the Company's position on some of the questions raised.

The series of articles deals extensively with the so-called Sidon claim and alleges that Aramco owes the Saudi Arab Government some \$200,000,000. Aramco already has stated publicly that the Government and the Company hold honest differences of opinion on this issue, and that Aramco believes it owes the Government nothing in this connection. The articles contain many errors of fact and reasoning about this complex dispute. However, because this is a matter subject to current negotiations, we feel it would be neither in the interest of the Government nor the Company to discuss further this subject in public.

There are so many other errors in the articles that we can only begin by pointing out some of the obvious ones.

1. One of the articles said that Saudi Arabia had the smallest percentage of increase in crude oil production among the major oil-producing countries in the Middle East in 1960.

This is not true. Saudi Arabia had the second highest percentage of increase in crude oil production of the major oil-producing countries in the Middle East. Some of the figures used in the article appear to be in error. Below are the 1959 and 1960 daily average production figures for Kuwait, Saudi Arabia, Iraq and Iran. The figures for Kuwait, Iraq and Iran were taken from World Petroleum Statistics of July 12, 1961, pages 5 and 7.

AVERAGE DAILY PRODUCTION (in barrels)

	<u>1959</u>	<u>1960</u>	<u>Average Daily Increase</u>	<u>Percentage of Increase</u>
Kuwait	1,383,164	1,623,710	240,546	17.4
Saudi Arabia	1,095,399	1,247,140	151,741	13.9
Iraq	852,584	966,757	114,173	13.4
Iran	944,658	1,067,634	122,976	13.0

There will always be short-span variations in rates of production increase in each of the Middle East countries, but it can be demonstrated that over the long run Saudi Arabia has shared fairly in these increases. As an example, the following table gives production for the first nine months of 1961 as compared

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with the first nine months of 1960, and the percentage of increase.

AVERAGE DAILY PRODUCTION (in barrels)

	<u>First 9 Months 1960</u>	<u>First 9 Months 1961</u>	<u>Average Daily Increase</u>	<u>Percentage of Increase</u>
Iran	1,005,300	1,166,400	160,600	16.0
Saudi Arabia	1,213,200	1,393,500	180,300	14.9
Kuwait (sic)	951,300	985,600	34,300	3.6
Iraq (sic)	1,612,100	1,645,700	33,600	2.1

You will note that for the first nine months of 1961, percentage of production increase was higher for Iran and Saudi Arabia, but lower for Kuwait and Iraq. Incidentally, you also will note that while Saudi Arabia was second in percentage of increase, Saudi Arabia's gain in barrels of oil produced a day was the highest.

2. The articles said the amount of crude processed at the Ras Tanura refinery in 1960 increased 29.4 per cent over 1959, but that this increase was due to a curtailment of exports from the Abadan refinery for a long period in 1960.

This is not true. The Abadan refinery operated normally in 1960. Its exports were curtailed in the months of February, March and April of 1961, and obviously had no connection with the increase in 1960 of the output of the Ras Tanura refinery.

3. The articles said that refining in the Kingdom is done only to cover the needs of the local market and to refuel tankers and that products are put back into the ground to avoid exporting them and paying income taxes to the Government.

This is not true. Exports of petroleum products to world markets from the Ras Tanura refinery were 57,594,000 barrels in 1960. This total does not include 14,003,000 barrels of bunker fuel oil supplied to ships at Ras Tanura and Jidda, or the 3,736,000 barrels of locally refined products consumed in Saudi Arabia. The products required by the Kingdom could have been supplied by the Ras Tanura refinery in about 15 operating days.

During 1960 the refinery processed 82,311,386 barrels of crude oil. It is true that about 5,200 barrels a day of naphtha for which there was a demand, was injected into the Qatif oil reservoir, as arranged with the Government (sic). This permitted the refinery to process an additional 27,000 barrels a day of crude oil, making available added quantities of kerosene, diesel oil and fuel oil, which were in great demand and were sold, thereby adding to the income taxes of the Government. The injected naphtha can be recovered later from the oil reservoir if and when demand increases for gasoline products.

4. The articles imply that the profits of the four parent companies are too high.

The four parent companies operate around the world, producing, transporting, refining and marketing oil and petroleum products. At the end of 1960, they had a

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combined net investment of \$14,432,000,000. A large proportion of this huge investment, which is estimated at about \$3,000,000,000 to \$4,000,000,000, is directly required to transport, refine and market Saudi Arabian crude oil and products. It is this availability of these world-wide facilities, along with the experienced organizations to operate them, that has made possible the rapid growth in Saudi Arabian oil production. Aramco's parent companies earned an average profit of 10.6 per cent on this total investment in 1960.

5. The articles said that the profits of Aramco's four parent companies increased in 1960 while income taxes and royalties dropped.

The Kingdom's income taxes and royalties generated by Aramco's 1960 operations did not drop. They increased \$40,000,000 over the previous year.

6. The articles said that Aramco is supposed to pay 50 per cent of its net profit to the Saudi Arab Government. They add that deductions, however, reduce the Government's share to much less than that.

The Company regularly pays 50 per cent of its net operating profit to the Government.

7. The articles said that Aramco write-offs for depreciation range between 7-1/2 and 33-1/3 per cent, and averaged 8-1/2 per cent, which the author termed very high. In 1960, Aramco write-offs for depreciation actually averaged approximately 4-1/2 per cent.

8. The articles said that the company has made attempts to free itself of local marketing of oil products within the Kingdom in order to be a company engaged in crude oil production.

This is not correct. Over the years Aramco has received many offers to purchase practically every one of its bulk plants in the Kingdom but has not been willing to sell. Recently a Royal Decree gave a petroleum refining and marketing concession for the Western Province to the Saudi Arabian Refining Company (SARCO). Sarco then offered to purchase the Jidda bulk plant and take over Aramco's marketing of petroleum products in the Western Province. In an attempt not to obstruct this project, Aramco has been negotiating with Sarco on the terms of a possible sale of these facilities and has indicated a willingness to sell them to Sarco.

9. The articles said that Aramco claims that it provides supervisory jobs for Saudis; whereas, in fact these jobs are "workers' observers."

As presently organized, the company has 1,181 supervisory jobs. At one time, all such jobs were held by Americans. At present, 464 of them are filled by competent Saudi Arabs, and more are moving into such jobs each month. These Saudi Arab supervisors, some of whom direct the work of as many as 100 or more employees each and administer budgets running up into hundreds of thousands of dollars, certainly are not "workers' observers."

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10. The articles speak of yearly salaries for Americans in six digits in dollars, excluding taxes and such privileges as housing, food and other services.

Aramco has no annual six digit salaries for any of its American employees. Contrary to Ustadh Samir's statement, Americans pay their own taxes to the Saudi Arab Government; Saudi Arab employees pay no income taxes. Americans pay for housing, food and other services, some of which are free to Saudi Arab employees.

11. The articles ask: 'Where are the technical and industrial training centers that were constructed by Aramco?'

Work is continuing in these training centers in Dhahran, Ras Tanura and Abqaiq. (sic) In addition, training classes also are conducted in outlying districts, such as among the exploration parties in the Rub 'al-Khali. At present, some 3,400 Saudi Arab employees are attending formal training courses as a part of their daily work. This is about 30 per cent of all Saudi Arabs employed by the Company, and there are more than 2,000 employees who attend the Industrial Training Center classes on their own time after their regular working hours.

12. The articles imply that Aramco's parents and affiliated companies pay cheap prices for Saudi Arabian oil.

The parent and affiliated companies pay the full posted prices for crude oil and products, less audited marketing expense.

There are many other implications running through the series of articles appearing in al-Bilad that tend to give a distorted picture of the Company's operations. One of these implications is that officials of the Saudi Arab Government are lenient in dealing with Aramco. We can only say that Aramco always has found Government officials diligent and zealous in safeguarding the interests of the country and its people.

Another implication is that the Government is not fully informed concerning Aramco's operations. Aramco annually files an income tax return with full supporting financial data which has been audited by a recognized independent public accounting firm. Every figure in it is subject to audit by the Government. Aramco also supplies the Government with dozens of reports daily, weekly, monthly and annually on all phases of its operations - exploration, development, production, transportation, refining and sale of petroleum and petroleum products. Full information about the Company also is available to the two Saudi Arab members of the Board of Directors.

There are many other errors in the series of articles and we have listed in the above only a few of them."

(English text courtesy of Aramco)

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FROM : AMCONSUL DHAHRAN

201  
NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

FEBRUARY 21, 1962

DATE

REF : CERP D-15

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3-7-62	3	5	10	3	3	3	3	3	3	3	3	3	3	3	3

SUBJECT: MINISTRY OF PETROLEUM AND MINERAL RESOURCES - ORGANIZATION OF THE DIRECTORATE-GENERAL IN DAMMAM.

1. THERE IS ATTACHED A FUNCTIONAL ORGANIZATION CHART OF THE DIRECTORATE-GENERAL OF PETROLEUM AND MINERAL RESOURCES IN DAMMAM. THE DIRECTORATE-GENERAL IS STILL IN THE PROCESS OF BEING RE-ORGANIZED SO SEVERAL OF THE OFFICES SHOWN UNDER THE TECHNICAL DIVISION ARE MERELY PROPOSED UNITS WHICH ARE UNDER SERIOUS STUDY BY THE MINISTRY OF PETROLEUM AND MINERAL RESOURCES. THE PROPOSED OFFICES ARE CLEARLY IDENTIFIED AS SUCH.

2. THE DIRECTOR-GENERAL IS SAYYID 'ABD AL HADI TAHIR WHO WAS BORN IN MEDINA IN 1930. AFTER HAVING COMPLETED THE AL-NASIRIYAH ELEMENTARY SCHOOL REQUIREMENTS IN 1946, TAHIR GRADUATED AT THE TOP OF HIS CLASS. HE BEGAN TO TEACH IN MEDINA BECAUSE OF HIS FAMILY'S FINANCIAL DIFFICULTIES WHILE ATTENDING NIGHT COURSES TO COMPLETE HIS SECONDARY SCHOOL REQUIREMENTS. TAHIR THEN ENROLLED IN THE LIBERAL ARTS COLLEGE OF FUAD I UNIVERSITY (NOW THE UNIVERSITY OF CAIRO) WHERE HE PLANNED TO MAJOR IN ENGLISH. AFTER ONE YEAR OF STUDY TAHIR WAS AGAIN FORCED TO POSTPONE FURTHER EDUCATION IN ORDER TO WORK FOR A PERIOD OF ONE YEAR. HE NEXT ENROLLED IN THE SCHOOL OF COMMERCE OF 'AIN SHAMS UNIVERSITY IN CAIRO IN 1952. TAHIR GRADUATED WITH A BACHELOR OF ARTS DEGREE IN COMMERCE FROM 'AIN SHAMS UNIVERSITY IN 1955. FOLLOWING HIS GRADUATION, TAHIR

L. J. L.  
LEWIS:EP

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Desp. No. 201  
From DHAHRAN

WORKED FOR TWO YEARS AS AN ASSISTANT ACCOUNTANT FOR THE DIRECTORATE GENERAL OF PETROLEUM AND MINERAL AFFAIRS--THE FORERUNNER OF THE MINISTRY OF PETROLEUM AND MINERAL RESOURCES--IN ITS JIDDA OFFICE. THE SAUDI ARAB GOVERNMENT THEN SENT HIM TO THE GRADUATE SCHOOL OF ADVANCED COMMERCIAL AND ECONOMIC STUDIES OF THE UNIVERSITY OF CALIFORNIA ON A SCHOLARSHIP. TAHIR COMPLETED HIS REQUIRED COURSES AND PASSED THE COMPREHENSIVE EXAMINATION FOR HIS DOCTORAL DEGREE IN 1960 BUT HE HAS BEEN UNABLE TO COMPLETE HIS THESIS BECAUSE OF THE PRESS OF DUTIES CONNECTED WITH HIS PRESENT POSITION.

3. TAHIR'S ASSISTANT IS 'ISAM KABBANI, A MECCA-BORN CITIZEN OF SYRIAN ORIGIN, WHO WORKED FOR THE MINISTRY OF FOREIGN AFFAIRS FOR TWO YEARS BEFORE HIS TRANSFER TO THE MINISTRY OF PETROLEUM AND MINERAL RESOURCES. KABBANI WAS GRADUATED FROM SWARTHMORE COLLEGE WITH A BACHELOR OF ARTS DEGREE IN POLITICAL SCIENCE AFTER HAVING TRANSFERRED FROM THE AMERICAN UNIVERSITY OF BEIRUT. HE EARNED HIS M.A. DEGREE IN POLITICAL SCIENCE FROM COLUMBIA UNIVERSITY IN 1959. KABBANI JOINED THE MINISTRY OF PETROLEUM AND MINERAL RESOURCES AS AN ADVISOR TO THE RIYADH "OFFICE" IN THE SUMMER OF 1961. IN LATE 1961, KABBANI WAS APPOINTED TO THE POSITION OF ASSISTANT DIRECTOR-GENERAL OF THE DIRECTORATE-GENERAL OF PETROLEUM AND MINERAL RESOURCES IN DAMMAM.

4. THE FUNCTIONAL DIVISIONS (E.G. THOSE ACTUALLY INVOLVED IN THE OPERATIONS OF THE DIRECTORATE-GENERAL AS OPPOSED TO THOSE INVOLVED IN THE SUPPORT OF IT) ARE THREE IN NUMBER; THEY ARE IN THEIR ORDER OF IMPORTANCE--THE TECHNICAL DIVISION, THE OIL ACCOUNTING DIVISION AND THE GAUGING DIVISION.

5. THE SCANTY BITS OF INFORMATION AVAILABLE ABOUT THE DAMMAM DIRECTORATE-GENERAL AND THE AS YET UNCERTAIN DELINEATION OF THE RESPONSIBILITIES OF SUBORDINATE OFFICES, MAKE MORE THAN BRIEF COMMENT ABOUT THE FUNCTIONS OF THESE OFFICES IMPOSSIBLE. THE TECHNICAL DIVISION, WHICH IS THE MOST IMPORTANT OF THE THREE FUNCTIONAL DIVISIONS, HAS AS ITS CHARTER THE COLLECTION AND COLLATION OF INFORMATION ON OIL FIELD TECHNOLOGY. IT IS REQUIRED TO MONITOR THE OIL FIELD PRACTICES OF THE OIL COMPANIES OPERATING

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From DHAHRAN

IN SAUDI ARABIA AND THE NEUTRAL ZONE AND TO MAKE SUGGESTIONS OR RECOMMENDATIONS FOR MODIFICATION OF PRACTICES FELT TO BE HARMFUL OR CONTRARY TO THE AGREEMENTS UNDER WHICH THE OIL COMPANIES ARE OPERATING.

6. THE OIL ACCOUNTING DIVISION REVIEWS THE REPORTS PREPARED BY THE AUDITING FIRMS HIRED BY THE RESPECTIVE OIL COMPANIES, ANALYZES THEM AND FORWARDS THEM TO THE MINISTRY IN RIYADH. THE PERSONAL INCOME TAX RETURNS AND RECEIPTS OF ARAMCO PERSONNEL ARE ALSO FORWARDED TO THE OIL ACCOUNTING DIVISION FOR FORWARDING TO THE MINISTRY IN RIYADH. THE INCOME TAX BRANCH OF THIS DIVISION MAINTAINS AN OFFICE IN DHAHRAN UNDER THE CHARGE OF MESSRS. IBRAHIM HIRZALLAH AND HANZA FUAD BUSAISU WHO ARE, THEREFORE, THE INITIAL RECIPIENTS OF THE PERSONAL INCOME TAX RETURNS AND RECEIPTS.

7. THE GAUGING DIVISION IS SIMPLY WHAT ITS NAME IMPLIES, E.G. AN ORGANIZATION DESIGNED TO PROVIDE SAUDI ARAB GOVERNMENT PERSONNEL TO CHECK THE AMOUNTS AND TYPES OF OIL LEAVING THE KINGDOM WHETHER BY TANKER OR PIPELINE.

8. THE FUNCTIONAL DIVISIONS ARE REPRESENTED IN THE NEUTRAL ZONE OFFICE OF THE MINISTRY WHICH IS HEADED BY SAYYID MUHAMMAD JAUKH DAR. THE NEUTRAL ZONE OFFICE IS ORGANIZED ALONG "FUNCTIONAL" FIELD ORGANIZATIONAL LINES. THE REPRESENTATIVES OF THE DAMMAM FUNCTIONAL DIVISIONS ARE, THEREFORE, ANSWERABLE TO THE DIRECTOR-GENERAL IN DAMMAM AND SERVE ONLY AS STAFF ADVISORS TO SAYYID MUHAMMAD JAUKH DAR. JAUKH DAR, HIMSELF, REPORTS DIRECTLY TO THE MINISTER OF PETROLEUM AND MINERAL RESOURCES, SAYYID ABDULLAH TARIKI, BUT HE IS SUPPORTED FROM DAMMAM. THE AL-BILAD NEWSPAPER OF DECEMBER 31, 1961, No. 889, REPORTED THAT THE MINISTRY WAS PLANNING TO HAVE A WEEKLY COURIER AND TRANSPORTATION RUN FROM DAMMAM TO THE NEUTRAL ZONE FOR ITS TECHNICAL PERSONNEL. THE REPORTING OFFICER HAS LEARNED THAT THIS DAMMAM/NEUTRAL ZONE LINK IS IN OPERATION AT THE PRESENT TIME. IN ADDITION TO THE ABOVE-MENTIONED LINK, THE DAMMAM AND NEUTRAL ZONE OFFICES HAVE A RADIO LINK WHICH PROVIDES THEM WITH DAILY CONTACT.

9. THE BEST ESTIMATE OF THE DAMMAM DIRECTORATE-GENERAL'S ORGANIZATIONAL CHART IS THAT IT IS OVER-AMBITIOUS. THE DIRECTORATE-GENERAL NEITHER HAS ENOUGH

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TECHNICALLY TRAINED PERSONNEL NOR ENOUGH AUTHORITY TO  
MAKE THE ATTACHED CHART A PRACTICAL REALITY. HOWEVER,  
IT IS A GREAT IMPROVEMENT OVER THE CHAOS WHICH PREVIOUSLY  
REIGNED AND IS AN INDICATION THAT THE EFFORTS OF THE  
DIRECTOR-GENERAL AND HIS ASSISTANT, AIDED BY THE ADVICE  
OF THE CHIEF OF THE TECHNICAL DIVISION, MR. MEADE CARPENTER,  
AN AMERICAN, ARE BEARING SOME FRUIT.

*John Evarts Horner*  
JOHN EVARTS HORNER  
AMERICAN CONSUL GENERAL

ENCLOSURE: *att* 1

FUNCTIONAL ORGANIZATION  
CHART OF THE DIRECTORATE-  
GENERAL OF PETROLEUM AND  
MINERAL RESOURCES IN DAMMAM.

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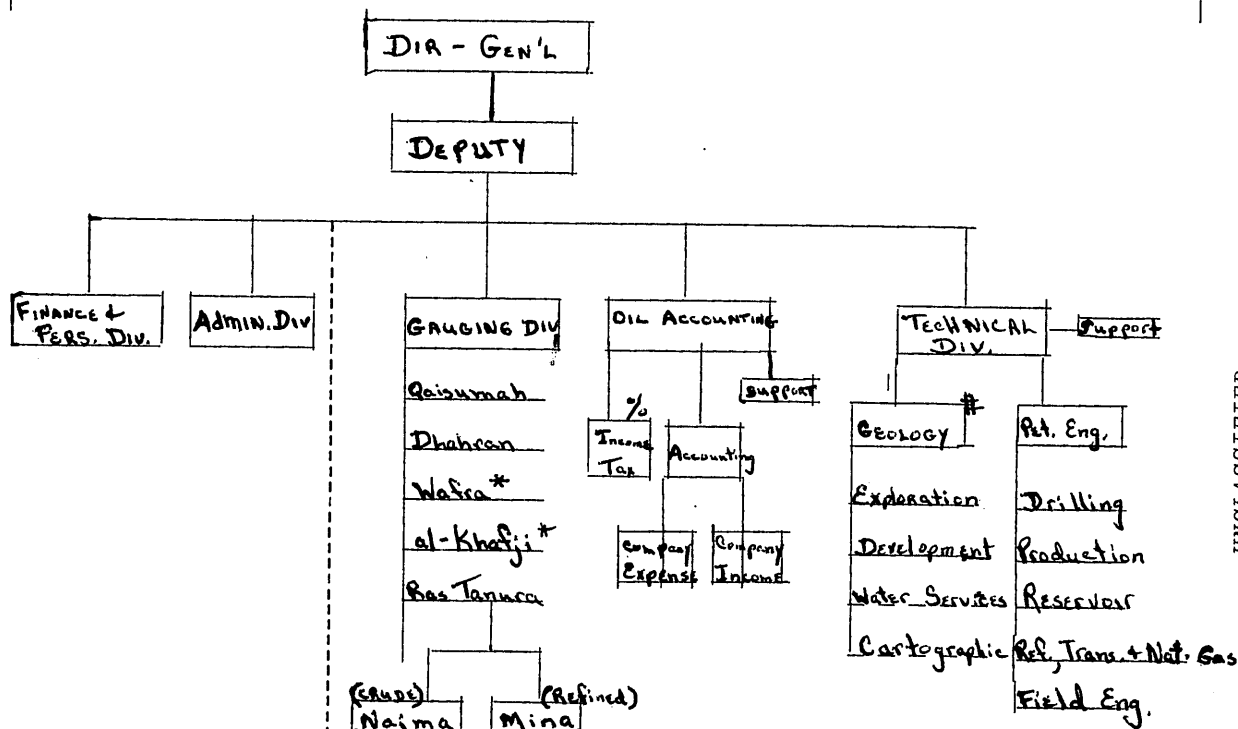
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 o/o IBRAHIM HIRZALLAH AND HAMZAH FUAD BUSA ISU AT  
 DHAHRAN (ZAKAH REPORTS).  
 # ABD-AL-KARIM GHALAYINI.  
 \* ATTACHED TO THE PETROLEUM AND MINERAL RESOURCES  
 OFFICE IN THE NEUTRAL ZONE. JAUH AR HEADS N.Z.  
 OFFICE & HAS OPERATIONS PERSONNEL ASSIGNED TO  
 HIM AS "STAFF" EMPLOYEES FROM THE DAMMAM DIR. GEN'L.

AIR POUCH		CONFIDENTIAL (Security Classification)		DO NOT TYPE IN THIS SPACE	
PRIORITY		FOREIGN SERVICE DESPATCH		8862.2553 / 2-2662 EX-118	
FROM : AMEMBASSY JIDDA		237 DESP. NO.		February 26, 1962	
TO : THE DEPARTMENT OF STATE, WASHINGTON.				DATE	
REF : CERP. D-15.		Send Copies to lists listed bottom ? Page 5 (14 copies)			
35 For Dept. Use Only	ACTION REC'D 4-20	DEPT. IN F O OTHER	RMC-2 Rep. 1 INR-5 E-3 AID-11 AF-21 CIA-7 COM-17 INT-7 TAR-2 OSD-2 ARMY-5 NAVY-3		
SUBJECT: Saudi Arabia's Oil Industry: Conversation between Assistant Secretary of State for Near Eastern and South Asian Affairs, Phillips Talbot, and Shaykh 'Abd Allah Tariki, Saudi Arabian Minister of Petroleum and Mineral Resources.					

Date: February 13, 1962  
 Place: Shaykh 'Abd Allah's office, located in the Ministry of Communications Building, Riyadh.  
 Participants: Shaykh 'Abd Allah Tariki, Minister of Petroleum and Mineral Resources  
 The Hon. Parker T. Hart, Ambassador to Saudi Arabia  
 The Hon. Phillips Talbot, Assistant Secretary of State  
 Andrew I. Killgore, Department of State, NEA/NE, Arabian Peninsula Affairs  
 Charles L. Widney, Jr., Second Secretary of Embassy

#### SUMMARY

Shaykh 'Abd Allah began the conversation with a general discussion of Saudi Arabia's need for economic development, but he quickly turned to a favorite theme of attacking Aramco as an immoral giant that has his country at its mercy through the control of its most valuable natural resource--oil. He developed the idea that Aramco had long since reaped a just profit on its investment and should now be ready to conclude a new agreement with Saudi Arabia giving far greater financial benefits to the country. He urged that the U.S. Government should not support Aramco in maintaining its position, saying that as of now there is little difference between Aramco and U.S. Government policy. Asked what he really desired from Aramco, Shaykh 'Abd Allah mentioned a desire for relinquishment of 75% of the company's concession area and a wish to have Aramco become a fully integrated Saudi company posting and selling in its own name right down to the gasoline pump. He plugged his idea of converting Tapline from the transport of crude oil to the transport of natural gas. He also spoke of his hopes for developing indigenous refining and petrochemical industries. He said Saudi Arabia had no interest in participating in Emile Bustani's scheme for the establishment by the oil producing countries of a joint development fund. Shaykh 'Abd Allah regretted that the briefness of the Assistant Secretary's visit did not permit him to develop his ideas further.

Assistant Secretary Talbot's call on Shaykh 'Abd Allah TARIKI took place in the Minister's private office, which he has had decorated in modern, American executive

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style. The participants in the conversation sat in easy chairs grouped around a low coffee table made from a round Egyptian tray.

Shaykh 'Abd Allah, who is a member of the Supreme Planning Board as well as being Minister of Petroleum, began the conversation by commenting that Saudi Arabia was, so to speak, 15 years old. He recognized that in the past it had squandered its resources but felt this was understandable. Now, having engaged in every possible folly and waste, he believed the country was becoming more mature, was ready to settle down and make wiser use of its resources. He noted that in the past he had cursed and insulted the "bastards" who were running things but continually felt frustrated and unable to make the slightest headway. Now, under the present government (the one that has been in office under the premiership of King SAUD since December 1960), he not only had the feeling progress was possible but believed it had actually been made.

He noted that it was extremely important for the country to have an adequate plan for development and mentioned road building and water resources development as the two most important fields requiring work. He noted that the current income of the country from oil of approximately \$350 million per year with an annual increment of approximately 6% was not sufficient for the implementation of the development program once it had been drawn up. It would therefore be necessary at that time to seek foreign loans to support the program.

Asked by Assistant Secretary Talbot to give his long-range view of the future of Arab oil under present world conditions, Shaykh 'Abd Allah was quick to launch into an attack on the oil companies operating in the Middle East and even quicker to come down to the case of Aramco. He sympathized with Qasim's struggle with IPC. Aramco had received its vast concession in 1933 at a time when Saudi Arabia was poverty stricken and ready to agree to any conditions in return for a pittance. He said that since that time the company had reaped enormous profits on its original investment and said he felt sure the current return was greater than that on any other U.S. investment abroad. The time had long since come when the company should recognize that it had gained handsomely enough from its investment and should sit down and talk over a fair revision of the concession agreement with the Saudi Government. He spoke of the position of Aramco in Saudi Arabia as a servitude on the sovereignty of the nation. The natural resource upon which the state depended for 90% of its income was completely in the hands of a foreign company.

As an example of what he meant, Tariqi heatedly cited the celebrated case of prevention of Aramco from selling asphalt for use by the Chinese Communists in road construction in Yemen (Embdespatch 65, August 29, 1961, and previous). Since Aramco makes all sales through its parent companies and they, as American corporations, are prevented by American law from selling to the Chinese Communists, even indirectly, this sale, which at least at one point had the approval of the Saudi Arabian Council of Ministers, could not be consummated. (A fact of which Shaykh 'Abd Allah may not be aware is King Saud's personal assurance to Aramco Vice President Brougham that he opposes the sale of the asphalt to the Chinese Communists, reported in Embtel 114, August 29, 1961.) Shaykh 'Abd Allah said that in any case this asphalt, which would be of benefit to the Yemeni people, should not have been prevented from going to them. He said that no matter what the source he welcomed projects of benefit to the people, such as the roadbuilding of the Chinese or the building of the port of

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Desp. No. 237  
From Jidda

Hodeida by the Russians. He said that rule by the Communists might even be preferable to rule by the Imam. U.S. assistance to Yemen had come only after the Communists had begun their activity and was not motivated by a real desire to help the Yemenis. Mr. Talbot noted that the U.S. admittedly had had administrative difficulties in getting its program under way but that it had been thinking in terms of assistance to Yemen before the Communists entered the field.

Throughout the conversation Tariki repeatedly stated or inferred that there is no real distinction between Aramco and the U.S. Government.

He rather gracelessly indulged a favorite pastime of speaking of U.S. ambassadors to Saudi Arabia as tools of Aramco, saying that he had on file the record of a conversation in which an American ambassador (name not given) advised King SAUD to get rid of that no good "bastard" Tariki. (See Emb Beirut Despatch 950 of June 21, 1961, for another example of this.)

When Mr. Talbot stated that the U.S. was not, as Tariki implied, interested merely in exploiting the Middle East economically, citing U.S. economic assistance to various Middle Eastern countries, Shaykh 'Abd Allah retorted that he doubted that the amount of U.S. assistance to countries of the area equalled the amount of profits made by the oil companies.

Continuing his attack on the oil companies, Shaykh 'Abd Allah asked why it was the U.S. Government condoned monopoly abroad while opposing it in the United States, noting the limitation placed on the size of single oil holdings in Alaska. He said that all he really asked of the U.S. Government was that it adopt a neutral attitude and not try to protect the oil companies when they were acting in an "immoral" manner. It should not, for example, urge the settlement of disputes between Saudi Arabia and Aramco through arbitration (presumably because Aramco seems sure to come out on top if this method is used). He said that despite the injustice felt by the Saudis, they were obliged to accept the situation, since they were at the mercy of Aramco and could not afford to lose the income of a single day's oil production.

When Secretary Talbot asked what it was that Tariki really desired from Aramco, the latter replied that in terms of the relinquishment of unexploited portions of the concession area he would be satisfied if the company relinquished 75%. When the Ambassador inquired regarding Aramco's existing relinquishment program, Tariki scathingly retorted "that program will still leave Aramco sitting on the best 186,000 square miles of the only resource God has given us." (He has shown his displeasure with the rate of relinquishment thus far by refusing to acknowledge communications from Aramco informing the Saudi Government of relinquished areas.) He also spoke of his desire that Aramco become a Saudi company which could dispose of its products wherever it desired rather than being forced to sell only to the parent companies, which were themselves engaged in fierce competition and might at any moment find it to their advantage to reduce their purchases of crude from Saudi Arabia and replace them with crude from newly developed fields elsewhere, e.g. Esso in Libya right now. Aramco should also be able to sell products under its own name, down to the filling station pump level. Otherwise, when Aramco's concession comes to an end Saudi Arabia will find itself completely without any established markets to which it can continue to sell.

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By 305 NARA Date 3/5/02

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From Jidda

In connection with relinquishment Shaykh 'Abd Allah said it was his hope to develop a new oil field near Khurays, mid-way between Riyadh and Hofuf, which field would supply a refinery to be established in Riyadh.

Another of his recently conceived ideas, which Shaykh 'Abd Allah expounded to Mr. Talbot was that Tapline be converted to the transport of natural gas. He said that the great size of tankers had made the line uneconomical and that its conversion would enable Saudi Arabia to market gas in such countries as Egypt, Turkey, Greece and Western Europe. In answer to the Ambassador's query as to whether a market study had been made, he replied, vaguely, that he knew the market could be developed. He noted that the power authority of the city of London was prepared to purchase gas that was being piped from the new Sahara fields to the Mediterranean and felt this was proof of the economic feasibility of his scheme. A question raised by the Ambassador whether the gas piped from Saudi Arabia would be sweet did not appear to concern him. It could be refined, chilled at Sidon and shipped as liquid petroleum gas.

Shaykh 'Abd Allah had opened his discussion of natural gas with a blast at Aramco for wasting this precious product through flaring, saying that although today it might not be possible to use it, future generations of Saudis would curse the present one for the loss of this valuable asset. He conceded, in response to the Ambassador's questioning, that Aramco had already begun to do quite a bit in the way of re-injection.

He said it was his hope to develop a petrochemical industry in Saudi Arabia, saying that negotiations were already underway with a Dutch firm for the establishment of a urea plant in Dammam. He thought markets for it could be developed in Iraq and India.

In response to Mr. Talbot's suggestion that Saudi Arabia with its oil income, which amounted to possibly \$100 per capita per year, was in good shape compared to such countries as Pakistan and Egypt, Shaykh 'Abd Allah replied that income was very unevenly distributed and that Mr. Talbot could not appreciate, since he had not seen, the primitive conditions under which most of the population still lived. He said passionately that the people were in dire need of every bit of income they could get in order to improve their desperate state, regardless of comparisons with other Middle East societies.

In response to Secretary Talbot's question whether Saudi Arabia might participate in Lebanese Emile BUSTANI's scheme for contributing 5% of each oil-producing country's income to a regional development fund, Shaykh 'Abd Allah replied jestingly that Lebanon should also contribute a percentage of the income of its night clubs and banks. Saudi Arabia could not spare any of its income for use outside the country.

Shaykh 'Abd Allah had nothing of special interest to say in response to questions by Mr. Talbot about the general condition of the world oil industry. He did, however, comment briefly on the annual oil conferences held under the auspices of the Arab League. He said that it was a mistake to think that the purpose of these conferences was to give the oil-producing countries a forum to attack the

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From Jidda

oil companies. He said it was his hope that the conference would become a clearing house for the exchange of views and ideas on the technical aspects of the oil industry somewhat on the model of the meetings of the American Petroleum Institute (API). (Although Shaykh 'Abd Allah did not touch on OPEC during this conversation he expressed at the time of its last meeting when he made it clear that OPEC and not the oil conference was the proper place for the discussion of company-government relations, thus excluding non-exporting countries such as Egypt from this field.

At the conclusion of the hour Shaykh 'Abd Allah gave every appearance of wanting to go on for another hour or so. He complained that the shortness of the Assistant Secretary's visit gave too little time for discussion, and having blown off considerable steam, gave us a very cordial handpumping as we left.

  
Parker T. Hart

cc: Amcongen DHAIRAN

Dept. please pass ADEN, ALGIERS, ALMAN, BAGHDAD, BEIRUT, CAIRO, DAMASCUS, KHARTOUM, KUWAIT, LONDON, RABAT, TAIZ, TRIPOLI, TUNIS.

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By SS NARA Date 3/5/02

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PRIORITY (Security Classification) <b>FOREIGN SERVICE DESPATCH</b>		DO NOT TYPE IN THIS SPACE 886a.2553 / 12-2702
FROM :	DESP. NO.	
TO :	THE DEPARTMENT OF STATE, WASHINGTON.	
REF :	Subdespatch 301, May 3, 1962	

67 For Dept. Use Only	ACTION REC'D 3/13	DEPT. IN F O OTHER	Pmr. 2 Rep. 1 IAR-5 E-3 AID-11 Com. 17 INT-7 TAR-2 ASD-3 ARMY-3 NAVY-3 AIR-30 O-38-31
SUBJECT: <b>INTEREST:</b> Expenses of offices of Aramco and Aramco Overseas Company located outside Saudi Arabia			

Aramco has restated to the Ministry of Petroleum and Mineral Resources its conviction that the expenses of its offices in the United States as well as the offices of the Aramco Overseas Company are ordinary and necessary business expenses, and that it will continue to deduct these costs when computing the company's income tax liabilities. The full text of Aramco's February 14, 1962, letter on this subject follows:

6-331-62

U.S. AND FOREIGN EMBASSIES

Director General  
Ministry of Petroleum  
and Mineral Resources,  
Dammam

February 14, 1962

Dear Sir:

This is in reply to your letter No. 117 dated 3 Sha'ban 1361 (9 January 1962).

Aramco is convinced that the expense of its offices in the United States and of the Aramco Overseas offices is ordinary and necessary business expense. These offices, which were in existence many years before Aramco submitted to Saudi Arabian income tax, perform services for Aramco which are essential.

We plan to continue to include the cost of these offices in Aramco expenses when calculating our income tax. If the Government continues to feel that this is improper and would like to submit this question to arbitration, the Company is prepared to join in this proceeding.

With kind regards.

Sincerely yours,  
/s/ H. D. Carter

**COMMENT:** Aramco currently has offices under its own name in New York and Washington, while offices of the Aramco Overseas Company are located in seven cities: The Hague (head office), Beirut, Cairo, London, New York, Sydney and Tokyo. Aramco feels strongly that its stand on the question of expenses of these offices is the correct one, and this is not the first time the company has indicated its willingness to submit the question to arbitration.

cc: Aramco's **ACTION COPY — DEPARTMENT OF STATE**  
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Every Technical Effort Has  
Been Made To Ensure Legibility

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By JCS NARA Date 3/5/02

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FOREIGN SERVICE DESPATCH

886a.2553/22762

FROM : AmEmbassy JIDDA

238

DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

February 27, 1962  
DATE

REF : Embdespatch 208, January 27, 1962.

G For Dept. Use Only	ACTION	DEPT.
	REC'D	OTHER
	NEA-4	RAK-2 Ref-1 INR-5 E-4 AID-11
	3-12-62	Com-17 INT-5 TAR-2 CIA-18 ARMY-5 NAVY-3

SUBJECT: PETROLEUM: Continuation of Basic SAG-Aramco Divergence of Views on Aramco's Export Marketing Practices

Responding to the Saudi Petroleum Ministry's latest refusal to allow the establishment of "third party" trading companies (see enclosure 2 of the referenced despatch), Aramco has sent the ministry a letter expressing its disappointment on this account and once more summarizing the probable advantages of such companies.

The letter also challenges the ministry's charges (1) that the sales method used at present by Aramco does not serve the interests of the Kingdom in the best possible manner, and (2) that Aramco's present offtaking arrangements are in violation of both its concession agreement and Saudi income tax laws. With respect to both charges, the real bone of contention is the company's traditional method of disposing of its entire export production to its owners' offtaking companies rather than posting and selling under the Aramco banner to all interested customers. The company's letter disposes of the first charge by pointing to its high current level of production and exports as proof of the effectiveness of its sales method. The second charge is flatly denied, and an expression is made of company willingness to submit the matter to arbitration. The full text of this February 14 Aramco letter is enclosed.

COMMENT: This and other recent Aramco-Saudi Government written exchanges (Embdespatches 242, 243, and 244, all of February 27) make crystal clear the present inability of the company to reach negotiated or compromise solutions of the basic issues confronting it in its relations with the Government. The recent series of Aramco letters to the Petroleum Ministry - "valentines" would hardly be the appropriate word despite the February 14 date on most of them - somehow appears to represent a new low ebb of company optimism about the possibility of settling any major problem on a rational basis so long as Saudi oil policy is molded by 'Abd Allah TARIKI. It seems that top Aramco officials are disappointed that no positive results have yet ensued from the discussions in Dhahran and Riyadh over the past 3-4 months with Tariki and his aides, notably legal advisor Frank HENDRYX. Further initiatives on both sides almost certainly will await the return of King SAUD expected in the next few weeks.

Enclosure: atty  
As stated

cc: Amcongen DHANRAN

WDWolle/eh

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Desp. No. 238  
From Jidda

THE COMPANY REPRESENTATIVE  
DAMMAN

THIRD PARTY TRADING COMPANIES

6-330-62

February 14, 1962

Director General  
Ministry of Petroleum and Mineral Resources  
Dammam

Dear Sir:

This is in reply to your letter No. 4900/21/2/2 dated 22 Rajab 1361  
(30 December 1961).

We were most disappointed to learn (a) that the Government is still unwilling to approve marketing arrangements for Aramco similar to those available elsewhere in the Middle East through the use of trading companies, in particular, so-called third party trading companies; (b) that the Government believes that the Company's present sales methods do not serve the best interests of the Kingdom in the best possible manner; and (c) that the Government believes Aramco's present offtaking arrangements are in violation of the Concession Agreement and the income tax laws.

With respect to the first point, we again reiterate that third party trading company arrangements are essential to insure maximum flexibility to compete for sales opportunities. Sales requiring third party trading companies have been infrequent, but have involved substantial quantities of crude for long periods of time. Without third party trading company arrangements, it will continue to be impossible to compete with other Middle East suppliers to obtain this kind of business for Arabian oil. We have explained, and again reiterate, that third party trading company arrangements can and would be implemented without any cost whatsoever to the Saudi Arabian Government. While we are unable to guarantee that increased sales would result if such marketing arrangements were approved by the Government, we can assure the Government that these arrangements would not result in a reduction of Aramco sales and would put us in a position to compete from time to time for substantial additional business.

With regard to the second point, we disagree that Aramco's current sales arrangements do not serve the interests of the Kingdom in the best possible manner. Aramco's current level of production and sales is proof of the effectiveness of the Company's present marketing arrangements, despite the Company's inability to secure approval for fully competitive marketing arrangements.

The Government has contended that under present offtaking arrangements, Saudi Arabia's income remains at the mercy of Aramco's owners and offtakers, and that this is a violation of the Concession Agreement and the Saudi Arabian income tax laws. We categorically deny that any violation of either the Concession Agreement or the income tax laws is involved. Moreover, your argument ignores the fact that a seller is always at the mercy of the buyer. This is true in any business. No product or service can be sold for a price higher than a willing buyer will pay. Most of Aramco's sales are made by the offtakers to their affiliated

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Desp. No. 238  
From Jidda

companies at posted prices, despite the fact that such affiliated companies must compete with independent companies purchasing oil at substantial discounts, and these affiliated companies must often sell for less than they have been required to pay for the oil sold.

If the Government is convinced that our present offtake arrangements constitute a violation of the Aramco Concession Agreement and would like to submit this question to arbitration, the Company is prepared to join with the Government in submitting this matter to an impartial tribunal.

With kind regards.

Sincerely yours,

/s/ H. D. Carter

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Authority 949578  
By SP5 NARA Date 3/5/02

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AIR POUCH  
PRIORITY

**FOREIGN SERVICE DESPATCH**

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(Security Classification)

242

DO NOT TYPE IN THIS SPACE

886a.2553/  
12-2762

FROM : AmEmbassy JIDDA

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : Embdes 192, Jan. 20, 1962 ; Embdes 190, Jan. 18, 1962

February 27, 1962  
DATE

67 For Dept. Use Only	ACTION REC'D 3/2	DEPT. IN F OTHER O	PMR-2 REP-1 INR-5 E-3 DID-11 CIA-10 Com-17 INT-7 DSD-3 ARMY-5 NAVY-3 DPR-3 TDR-2
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SUBJECT: PETROLEUM: Aramco Rejects Saudi Government Demand for Cancellation of Marketing Allowances on Refined Product Sales, and Reiterates its Stand Against additional Liability for Taxes on Crude Oil Sales Since August 1960.

After considering for about a month the Saudi Petroleum Ministry's demand (see refdespatch) for disallowance of marketing expenses on sales of refined products, Aramco has written to the ministry flatly refusing to comply and declaring that the company believes these expenses are allowable under the existing Saudi income tax law. Since the ministry's demand was made in a letter that included, also, a further admonition that the company owed considerable additional sums as a result of the August 1960 cut in crude oil posted prices, Aramco included in its reply a denial that additional income tax liabilities existed on sales made on the basis of post-August 1960 prices. Following is the complete text of the Aramco letter, no. 6-329-62 of February 14, 1962:

"This is in reply to your letter No. 110 dated 25 Rajab 1381 (2 January 1962).

Our denial of additional income tax liabilities on sales made on the basis of posted prices in effect since August 1960 has been stated in our letter No. 6-2642-61 dated 6 January 1962 (29 Rajab 1381).

With regard to the other questions raised in your letter No. 110, we must emphasize that Aramco's Saudi Arabian income tax obligations are determined by the income tax law to which we have submitted. The law required that the Company pay income taxes on the amounts actually received, after the deduction, among other things, of ordinary and necessary expenses. We submit that the Company has scrupulously conformed to this requirement.

The arrangements concerning pricing, marketing, and discounts stated in DH-326, dated 13 December 1958 (1 Jumada II 1378), merely constituted a basis acceptable to the Government and ourselves respecting the determination of a fair and reasonable pricing basis for Aramco's export sales, all of which are through Aramco's off-takers and their affiliates to other affiliated and independent buyers. We believe that these are not only eminently fair but, in certain respects, represent arrangements upon which the Government has insisted; for example, although the Company was convinced that marketing expenses incurred in the sale of Aramco crude and products would be demonstrably higher than 1%, we nevertheless offered to limit marketing expenses to 1% to avoid the complicated and cumbersome procedures necessary to determine actual costs. The Government, however, insisted

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Encl. No.  
Desp. No. ~~XXXX~~ 242  
From Jidda

that actual audited marketing expenses be applied. Similarly, the Company expressed the view that the Government's participation in profits arising from sales of refined products for export could best be achieved by charging its buyers posted prices for the crude equivalent of refined products exported plus refining costs and a refining fee - the practice followed throughout the Middle East -- and the Company expressed a willingness to increase the fee which was then being charged to the offtakers. The Government, on the other hand, insisted that, as in the case of crude sales, refined product sales be accounted for on the basis of posted product prices when sold to affiliates and actual audited realizations with respect to sales to independent buyers. Again the Company accepted the Government's position.

Your letter states that the present pricing arrangements are "not an incentive for your offtakers to concentrate their efforts on the solution of the economic and technical problems of the Ras Tanura refinery." We do not understand this statement. At the time the matter was under discussion, the Ras Tanura refinery was operating below capacity. For the past several years, and under our present pricing arrangements, the refinery has been operated at full capacity. The principal reason for the 26% average discount on refined product sales is a result of a large and important fuel oil contract with the U.S. Navy, which provides an outlet in excess of 100,000 barrels of crude oil daily to Aramco and has made it possible to achieve essentially maximum operating capacity for the Ras Tanura refinery.

Upon the Government's withdrawal of its acceptance of DH-326 in accordance with that letter's terms, Aramco's sole obligation then is to determine its prices consistent with any requirements of the income tax laws to which it has submitted and such agreements as may exist between the parties. In the absence of any mutual agreement directly affecting prices, Aramco must use its own judgment in determining its prices to offtakers. We are satisfied that the practices which it is presently following conform to those laws and agreements and are fair and reasonable. Therefore, unless and until mutually satisfactory alternative pricing arrangements can be agreed upon with the Government, the Company plans to continue its current pricing arrangements.

With kind regards.

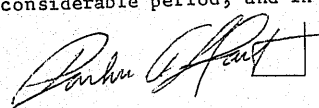
Sincerely yours,

/s/ M. D. Carter"

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COMMENT: Aramco's indignation with respect to the implication that the Ras Tanura refinery is in economic and technical difficulty, and that this is due to the company's present pricing arrangements, is unmistakable. The refinery has in fact been operating at or over rated capacity for a considerable period, and in 1961 alone increased its throughput by over 10 percent.

cc: Amcongen DHAHRAN

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Parker T. Hart

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Authority 949578  
By JCS NARA Date 3/5/02

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FOREIGN SERVICE DESPATCH

243

DESP. NO.

February 27, 1962

FROM : Ambassador JIDDA

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : Embdespatch 208, January 27, 1962

9 For Dept. Use Only	ACTION	DEPT.
	REC'D	IN F OTHER
3-12-62	NEA-4	RM/R-2 Ref 1 INR-5 E-4 AID-11
		Com -17 INT-5 TAR-2 CIA-10 ARMY-5 NAVY-3

SUBJECT: PETROLEUM: Aramco Reiterates its Position on "Sidon Claim" and its Willingness Either to Negotiate Compromise or to Resume Arbitration

The Arabian American Oil Company (ARAMCO) has once again communicated to the Saudi Government its position regarding the Tapline/Sidon claim problem. The company's Jidda representative has made available confidentially the text of a February 13 Aramco letter to the Ministry of Petroleum and Mineral Resources in which the company's view is stated rather more concisely than usual. The full text follows:

"Please refer to your letter No. 4870/3/3/6 dated 20 Rajab 1381 (28 December 1961).

We share the Government's view that the differences between the Company and the Government concerning the latter's claim arising from past sales at Sidon should be resolved. We are convinced that it is equally important that a sensible economic basis be found for the continued operation of the pipeline owned by Tapline, and for Aramco sales of crude oil destined to reach world markets by way of Sidon. We are pleased to note that the Government is prepared to consider various alternative proposals to achieve this latter objective following or "after a serious and sincere effort has been made on our part and the part of the Company for settlement of the Sidon dispute for the past years."

In our view, it is most important to find solutions for both problems. The Company remains prepared to join with the Government in making serious and sincere efforts to find a compromise solution of the Sidon claim for the past; it being understood, however, in view of our conviction that we owe nothing on this claim, that no final agreement requiring payment of any amount for past periods will be executed, unless or until a mutually satisfactory basis is agreed upon for determining the Government's revenue from the continued operation of the pipeline owned by Tapline and its taxes on income from Aramco sales of crude oil destined to reach world markets by way of Sidon. In the event that no acceptable compromise can, after sincere effort, be found for past periods, then we see no alternative, assuming the Government persists in its claim for the past, to resuming the arbitration of this matter which the Government and the Company commenced several years ago by our letter to His Excellency, the Minister of Finance and National Economy, dated 2 November 1957 (10 Rabi' II 1377), and the Government's letter No. 6121/1, dated 9 Jumada I 1377 (1 December 1957), and then suspended in order to seek a compromise solution. We stand ready to join with

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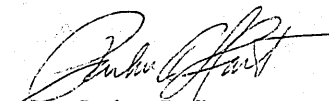


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Desp. No. 243  
From Jidda

Government at any time in effecting a resumption of this arbitration.

With kind regards."

  
Parker T. Hart

cc: Amcongen DHAHRAN

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244

DESP. NO.

February 27, 1962  
DATE

FROM : AmEmbassy JIDDA

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : Embdespatch 301, May 3, 1960

67 For Dept. Use Only	ACTION	DEPT
	REC'D	IN OTHER
	3/13	3/17

SUBJECT: PETROLEUM: Expenses of Offices of Aramco and Aramco Overseas Company  
Located Outside Saudi Arabia

Aramco has restated to the Ministry of Petroleum and Mineral Resources its conviction that the expenses of its offices in the United States as well as the offices of the Aramco Overseas Company are ordinary and necessary business expenses, and that it will continue to deduct these costs when computing the company's income tax liabilities. The full text of Aramco's February 14, 1962, letter on this subject follows:

66-331-62

Director General  
Ministry of Petroleum  
and Mineral Resources,  
Dammam

Dear Sir:

This is in reply to your letter No. 117 dated 3 Sha'ban 1381 (9 January 1962).

Aramco is convinced that the expense of its offices in the United States and of the Aramco Overseas offices is ordinary and necessary business expense. These offices, which were in existence many years before Aramco submitted to Saudi Arabian income tax, perform services for Aramco which are essential.

We plan to continue to include the cost of these offices in Aramco expenses when calculating our income tax. If the Government continues to feel that this is improper and would like to submit this question to arbitration, the Company is prepared to join in this proceeding.

With kind regards.

Sincerely yours,  
/s/ M. D. Carter

COMMENT: Aramco currently has offices under its own name in New York and Washington, while offices of the Aramco Overseas Company are located in seven cities: The Hague (head office), Beirut, Cairo, London, New York, Sydney and Tokyo. Aramco feels strongly that its stand on the question of expenses of these offices is the correct one, and this is not the first time the company has indicated its willingness to submit the question to arbitration.

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cc: Amcengen. DIAIRAN ACTION COPY - DEPARTMENT OF STATE

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By 205 NARA Date 3/5/02

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DEPARTMENT OF STATE  
INSTRUCTION

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NO: CW-6998 March 6, 1962.

SUBJECT: Reporting for Saudi Arabia-Kuwait Neutral Zone

REF: CW-4634; Jidda Despatch 215 8860

TO: American Embassy JIDDA, KUWAIT, American Consulate General DHAHRAN

The Department concurs fully in occasional visits by officers at Dhahran to the Kuwait-Saudi Arabian Neutral Zone as approved by the Ambassador and coordinated with Embassy Kuwait. Direct forwarding to the Department of reports of such visits is approved.

The basic reporting responsibility for the whole Neutral Zone will continue to lie with the Kuwait Embassy.

RUSK

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DRAFTED BY:

NEA:NE:TWShelye/NGThacher:vgg:lm: 3/2/62

CLEARANCES:

REP - Mr. Dehl (subs)

NEA/EX - Mr. Middleton

CONTENTS AND CLASSIFICATION APPROVED BY:

NE - Robert G. Strong

O - Mr. Appling

FORM DS-972

3-61

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GPO 509028

Circular 6998

8860.2553/3-662

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By JCS NARA Date 3/5/02

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FOREIGN SERVICE DESPATCH

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211

DATE

MARCH 8, 1962

MAR. 14 1962

FROM : AMCONSUL DHAHRAN

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP D-15; DHAHRAN DESPATCH 260, 4/3/61.

ACT	IN	DE	RM/R	REP	AF	ARA	EUR	FE	NEA	CU	INR	E	P	IO	ICA
67	NEA-4	2	1	17	7	2	2	2	3	3	3	3	3	3	3
For Dept.	Use Only	AGR	CDM	FRB	INT	LAB	TAR	TR	XMB						
REC'D	3/17	AIR	ARMY	CIA	NAVY	OSD	OCB	USIA	NEA	3					

SUBJECT: APPARENT APPROACH BY BAHRAIN TO SAUDI ARABIA REGARDING ABU SAFAH STRUCTURE; VALUE OF STRUCTURE UNKNOWN TO DATE.

ARAMCO'S GOVERNMENT RELATIONS DEPARTMENT STATES THAT THE SAUDI GOVERNMENT HAS INQUIRED WHAT PLANS ARAMCO HAS TO DEVELOP THE OFFSHORE ABU SAFAH STRUCTURE BETWEEN SAUDI ARABIA AND BAHRAIN. THE COMPANY IS REPLYING THAT THE RESULTS OF THE SEISMOGRAPHIC WORK DONE THERE DURING 1961 WILL NOT BE AVAILABLE UNTIL MID-1962 AND THAT THE COMPANY WILL THEN REVIEW THE SITUATION TO DETERMINE HOW ABU SAFAH SHOULD FIT INTO THE COMPANY'S DEVELOPMENT PROGRAM. THE COMPANY HAS PREVIOUSLY POINTED OUT TO THE GOVERNMENT THAT PRODUCTION FROM ABU SAFAH WOULD REDUCE SAUDI ARABIA'S INCOME (SEE BELOW).

COMMENT: IN VIEW OF BAHRAIN'S 25% INTEREST IN THE PROFITS, IF ANY, FROM THE STRUCTURE, AND ITS REQUEST TO BAPCO FOR GEOLOGICAL INFORMATION FOR TRANSMITTAL TO THE SAUDI GOVERNMENT (DESPATCH 260), IT APPEARS PROBABLE THAT THE SAUDI INQUIRY RESULTED FROM A BAHRAINI APPROACH.

THE CONSULATE GENERAL WILL REPORT FURTHER INFORMATION REGARDING THE BAHRAINI APPROACH AND THE PROSPECTS OF THE STRUCTURE AS IT BECOMES AVAILABLE.

JOHN EVARTS HORNER  
AMERICAN CONSUL GENERAL

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SCKEITER:RK

CONFIDENTIAL

FORM 6-61 FS-439 GPO 912596

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ACTION	ASSIGNED TO	NAME OF OFFICER	DATE OF ACTION	DIRECTIONS TO RM/R
		WE S.C. [Signature]	3/22/62	FL

DECLASSIFIED  
Authority 944570  
By JCS NARA Date 3/5/02

OFFICIAL USE ONLY

For Department Use Only

HANDLING INDICATOR

**FOREIGN SERVICE DESPATCH**

FROM : AMCONSUL DHAHRAN

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP B-425I, 2, 3, 4, 5; DHAHRAN DESPATCH II7, II/14/6I.

NO. 886a. 2553/3862  
DATE MARCH 8, 1962  
MAR 10 1962

67 For Dept. Use Only	AC T I O N	IN F O	DE P T	RM/R	REP	AF	ARA	EUR	FE	NEA	CU	INR	E	P	IO	11
				AGR	CDM	FRB	INT	LAB	TAR	TR	XMB	LP#				
				AIR	ARMY	CIA	NAVY	OSD	DCB	USIA	N/A	3				
REC'D 3/14					3	5	10	3	2							

SUBJECT: ARAMCO'S STATISTICAL DATA FOR THE FOURTH QUARTER, 196I.

TRANSMITTED HEREWITH ARE THE ARABIAN AMERICAN OIL COMPANY'S STATISTICAL DATA FOR THE FOURTH QUARTER OF 196I. THIS INFORMATION IS SUPPLIED TO THE CONSULATE GENERAL ON A CONFIDENTIAL BASIS.

### SUMMARY

DAILY CRUDE PRODUCTION FELL SHARPLY IN OCTOBER AND REMAINED AT ABOUT THE SAME LEVEL IN NOVEMBER BUT REBOUNDED TO RECORD LEVELS IN DECEMBER. AVERAGE PRODUCTION IN OCTOBER WAS 1,309,948 BARRELS PER DAY, DOWN ELEVEN PER CENT FROM SEPTEMBER; IN NOVEMBER, 1,300,263 BARRELS PER DAY, FOR A FURTHER REDUCTION OF LESS THAN ONE PER CENT; AND IN DECEMBER, 1,555,559 BARRELS PER DAY, UP TWENTY PER CENT FROM THE PREVIOUS MONTH. THESE FIGURES WERE FIVE, FOUR, AND TWENTY-FIVE PER CENT HIGHER, RESPECTIVELY, THAN THE 1960 AVERAGE OF 1,247,140 BARRELS PER DAY AND BROUGHT THE 196I AVERAGE TO 1,392,518 BARRELS PER DAY, UP 11.7 PER CENT FROM 1960.

DURING THE THREE MONTHS OF THE QUARTER, THE RAS TANURA REFINERY PROCESSED 8,140,084; 7,463,697 AND 8,039,733 BARRELS OF OIL RESPECTIVELY, FOR AVERAGES OF 262,583 BARRELS, 248,790 BARRELS, AND 259,346 BARRELS PER DAY, THUS RETURNING TO THE HIGH LEVELS RECORDED EARLIER IN THE

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REPORTER

FORM 6-61 FS-439 GPO 912596 For Department Use Only - To be Filled In on Yellow Original ONLY

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ASSIGNED TO:		3/20/62	file
NAME OF OFFICER			
OFFICE SYMBOL			

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Page 2 of  
Encl. No. \_\_\_\_\_  
Desp. No. 212  
From DHAHRAN

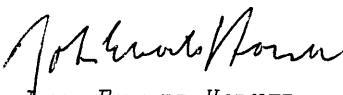
YEAR. AVERAGE INPUT FOR THE YEAR WAS 248,794 BARRELS PER DAY.

THE PROPORTION OF CRUDE SHIPPED BY PIPELINE ROSE, PARTICULARLY IN DECEMBER, FROM ABOUT ONE-THIRD OF TOTAL CRUDE SHIPMENTS IN SEPTEMBER AND OCTOBER TO OVER TWO-FIFTHS IN DECEMBER.

FOUR DEVELOPMENT WELLS WERE COMPLETED DURING THE QUARTER, ABU HADRIYA II AS AN OIL WELL IN OCTOBER, ABQAIQ 85 AND SAFANIYA 43 AS OIL WELLS IN NOVEMBER, AND 'AIN DAR 6I AS AN OBSERVATION WELL IN DECEMBER. BY THE END OF THE YEAR, RENEWED DRILLING IN KHURSANIYAH FIELD WAS UNDER WAY.

DURING THE QUARTER ONE SEISMOGRAPHIC PARTY WAS WORKING IN THE EASTERN RUB' AL KHALI; THE OTHER, WORKING IN THE SOUTH CENTRAL RUB' AL KHALI, COMPLETED COVERAGE OF THE CENTRAL AND SOUTHWESTERN PORTIONS OF THE SAND DESERT NORTH TO 22 DEGREES NORTH LATITUDE. BOTH STRUCTURE DRILL PARTIES BEGAN THE QUARTER IN THE NORTHWESTERN RUB' AL KHALI. ONE COMPLETED STRATIGRAPHIC WELL ST-20 AND BEGAN ST-2I IN THE SAME GENERAL AREA WHILE THE OTHER MOVED FIRST SOUTH OF HARADH FOR A SINGLE HOLE AND THEN TO THE WESTERN CONCESSION BOUNDARY WHERE IT BEGAN A SERIES OF FILL-IN STRATIGRAPHIC WELLS.

942 THOUSAND BARRELS OF PRODUCTS WERE SOLD IN SAUDI ARABIA DURING THE FOURTH QUARTER, BRINGING THE TOTAL FOR THE YEAR TO 3,939 THOUSAND BARRELS, UP THIRTEEN PER CENT FROM 1960. (THESE FIGURES DO NOT INCLUDE PRODUCTS USED BY ARAMCO.)

  
JOHN EVARTS HORNER  
AMERICAN CONSUL GENERAL

ENCLOSURE: 

ARAMCO STATISTICAL DATA FOR  
OCTOBER, NOVEMBER AND  
DECEMBER, 1961 (5 COPIES).

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By JCS NARA Date 3/5/02

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ARABIAN AMERICAN OIL COMPANY  
STATISTICAL DATA

*Encls  
2-212  
Shahran*

AR-724  
Page 1 of 2

*NEA*

Country: Saudi Arabia

1. Crude Oil Production 42-Gallon Barrels During October 1961

Field	Average Gravity °API	Daily Average	Monthly Total	Year-to-Date
Abqaiq	37.7	351,825	10,906,577	107,209,442
Dammam	35.5	32,147	996,573	9,676,010
Ghawar	35.1	566,927	17,574,732	215,033,738
Qatif	34.6	20,074	622,292	6,320,216
Safaniya	26.9	253,187	7,848,787	71,133,379
Khurais	-	-	-	-
Khursaniyah	29.8	85,788	2,659,426	11,666,189
Total	33.8	1,309,948	40,608,387	421,038,974

2. Development Wells Completed During Month of October 1961

Well	Oil	Gas	Dry	Observation	Total
Abu Hadriya 11	1				1

2A. Injection Wells Completed During Month of October 1961

Well	Gas	Water	Total
			None

3. Exploratory Wells Completed During Month of October 1961

Well	Oil	Gas	Dry	Observation	Total
					None

4. Condition of Wells at End of October 1961

(A) Completed Wells:  
(Wells "Completed" does not include wells listed as "Suspended" on Page 2)

								Total Completed Wells
Field	Producing	Abandoned Oil Drilling	Standing Oil (c)	Shut-In Oil (d)	Observation	Injection		
Abqaiq	61 (f)	3	0	3	0	5	12	84
Abu Hadriya	0	0	2	7	0	2	0	11
El Alat	0	0	1	0	0	0	0	1
Dammam	28 (a)	6 (b)	3	1	2	1	0	41
Fadhili	0	0	0	1 (e)	0	0	0	1
Ghawar:								
'Ain Dar	37	1	1	8	7	6	6	66
Shedgum	13	0	1	1	1	2	0	18
'Uthmaniyah	33	0	2	12	2	3	0	52
Hawiyah	0	0	0	1	0	1	0	2
Haradh	0	0	0	7	0	1	0	8
Fazran	0	0	2	3	0	2	0	7
Jauf	0	0	1	0	0	0	0	1
Khurais	0	0	2	11	0	1	0	14
Khursaniyah	5	0	1	0	0	2	0	8
Ma'aqala	0	0	1	0	0	0	0	1
Manifa	0	0	0	6	0	1	0	7
Qatif	9	0	1	0	0	1	1	12
Safaniya	25	0	0	12	0	3	0	40
Stratigraphic	0	0	1	0	0	0	0	1
	<u>211</u>	<u>10</u>	<u>19</u>	<u>73</u>	<u>12</u>	<u>31</u>	<u>19</u>	<u>375</u>

4. Condition of Wells at End of October 1961

- (a) Includes 2 producing gas wells
- (b) Includes 2 abandoned gas wells
- (c) Standing oil well has oil to surface but no surface facilities
- (d) Shut-in oil well is not producing
- (e) Well bore filled with mud
- (f) Abqaiq Well 2 will be produced intermittently as a gas cap test well

(B) Wells not completed:

<u>Well</u>		<u>Drilling</u>	<u>Field Total</u>	<u>Suspended</u>
Abqaiq	85	1	1	
Abu Hadriya	12	1	1	
Ghawar:				
'Ain Dar	66			1
'Uthmaniyah	38			1
Haradh	4			1
Qatif	13			1
Safaniya	43	<u>1</u>	<u>1</u>	
		<u>3</u>	<u>3</u>	<u>4</u>

5. Refined Products (42-Gallon Barrels - Thousands) month of October 1961

	<u>Input-Output</u>
Ras Tanura Refinery:	
Processed at Refinery	<u>8,140</u>
Production:	
Gasolines	800
Jet Fuel	308
Kerosenes	498
Diesel Oils	1,394
Fuel Oils	4,205
Others	142
Unfinished Oils	776
Losses or (Gains)	17
Total	<u>8,140</u>

6. Stocks (42-Gallon Barrels - Thousands) as of October 31, 1961

Refinery Products:		
Gasolines		1,335
Jet Fuel		340
Kerosenes		706
Diesel Oils		1,365
Fuel Oils		1,836
Others (Including Unfinished Oils)		1,124
	Subtotal	<u>6,706</u>
Purchased Products:		
Aviation Gasoline		-
Lubrication Oils & Greases		15
	Total	<u>6,721</u>

General Accounting Department  
Analytical & Budget Division  
November 29, 1961



ARABIAN AMERICAN OIL COMPANY  
CRUDE OIL REPORT

AR-727

Month of October 1961

Country: Saudi Arabia

	Barrels of <u>42 U. S. Gallons</u>
1. Stocks First of Month	14,547,226
2. Production of Principal Fields:	
Abqaiq	10,906,577
Dammam	996,573
Ghawar	17,574,732
Qatif	622,292
Safaniya	7,848,787
Kursaniyah	<u>2,659,426</u>
3. Total Crude Production	40,608,387
4. Natural Gasoline, etc., Mixed with Crude	Qty. Not Determined
5. Other Supply	<u>—</u>
6. TOTAL	<u>55,155,613</u>
7. Processed at Refinery	8,140,084
8. Pipeline Deliveries from Country	10,975,133
9. Water Shipments of Crude from Country	19,872,088
10. Other Shipments	227,925
11. Fuel and Losses	13,734
12. Stocks, End of Month	<u>15,926,649</u>
13. TOTAL	<u>55,155,613</u>

General Accounting Department  
Analytical & Budget Division  
November 29, 1961

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By JCS NARA Date 3/5/02

ARABIAN AMERICAN OIL COMPANY  
REFINERY REPORT

AR-728

Month of October 1961

Country: Saudi Arabia

Barrels of 42 U. S. Gallons

	Input-Output	Stocks at End of Month
1. Processed at Refinery	8,140,084	6,597
2. Natural Gasoline and Other Light Products	Qty. Not Determined	
3. A. Purchased Oil Rerun		
4. TOTAL INPUT	<u>8,140,084</u>	
5. Aviation Gasoline	56,760	177,830
6. Other Gasolines	742,936	1,157,640
7. Jet Fuel	307,929	340,169
8. Kerosenes	498,626	705,975
9. Distillates	1,394,014	1,365,449
10. Residual Fuel Oil	4,204,648	1,835,561
11. Lubricating Oil		
12. Asphalt		
13. Miscellaneous	142,121	190,074
14. Unfinished Oils Produced (Net)	776,208	933,604
15. Losses or (Gains)	<u>16,842</u>	
16. TOTAL	<u>8,140,084</u>	<u>6,712,899</u>
17. Daily Average Crude Oil Throughput Capacity of this plant:	189,000 Barrels	
18. Fuel Consumption at Plant of Oils Reported Above:		
Residual Fuel Oil	10,649	
Other Oils - Unfinished	402,186	

General Accounting Department  
Analytical & Budget Division  
November 29, 1961

DECLASSIFIED  
Authority 949578  
By JCS NARA Date 3/5/02

ARABIAN AMERICAN OIL COMPANY  
PETROLEUM MOVEMENT REPORT

AR-729

Month of October 1961

Country: Saudi Arabia

	Barrels of 42 U. S. Gallons	
	Imports	Exports
1. Crude Oil	-	30,997,875
2. Aviation Gasoline	76	1,671
3. Other Gasolines and Naptha	-	506,519
4. Jet Fuel	-	396,237
5. Kerosene	-	326,259
6. Distillate	-	956,966 (A)
7. Residual Fuel Oil	-	4,026,654 (B)
8. Lubricating Oil and Grease	1,578	-
9. Asphalt	-	22,950
10. Miscellaneous	-	49,926
11. TOTAL	1,654	37,285,057

(A) Includes 36,265 Barrels Bunker Oil Laden.

(B) Includes 1,166,839 Barrels Bunker Oil Laden.

12. Transporting Companies:

Names of various shipping companies which transported the  
reported above:

Not Available

General Accounting Department  
Analytical & Budget Division  
November 29, 1961

DECLASSIFIED  
Authority 949578  
By JCS NARA Date 3/5/02

ARABIAN AMERICAN OIL COMPANY  
STATISTICAL DATA

AR-724  
Page 1 of 2

Country: Saudi Arabia

1. Crude Oil Production 42-Gallon Barrels During November 1961

Field	Average Gravity °API	Daily Average	Monthly Total	Year-to-Date
Abqaiq	37.9	326,618	9,798,541	117,007,983
Dammam	35.4	33,913	1,017,404	10,693,414
Ghawar	35.3	595,603	17,868,100	232,901,838
Qatif	34.2	22,293	668,784	6,989,000
Safaniya	27.1	255,853	7,675,577	78,808,956
Khurais	-	-	-	-
Khursaniyah	29.9	65,983	1,979,486	13,645,675
Total	34.0	1,300,263	39,007,892	460,046,866

2. Development Wells Completed During Month of November 1961

Well	Oil	Gas	Dry	Observation	Total
Abqaiq 85	1				1
Safaniya 43	1				1

2A. Injection Wells Completed During Month of November 1961

Well	Gas	Water	Total
			None

3. Exploratory Wells Completed During Month of November 1961

Well	Oil	Gas	Dry	Observation	Total
					None

4. Condition of Wells at End of November 1961

(A) Completed Wells:  
(Wells "Completed" does not include wells listed as "Suspended" on Page 2)

		Abandoned		Standing	Shut-In			Total
Field	Producing	Oil	Drilling	Oil (c)	Oil (d)	Observation	Injection	Completed Wells
Abqaiq	61 (f)	3	0	4	0	5	12	85
Abu Hadriya	0	0	2	7	0	2	0	11
El Alat	0	0	1	0	0	0	0	1
Dammam	28 (a)	6 (b)	3	1	2	1	0	41
Fadhili	0	0	0	1 (e)	0	0	0	1
Ghawar:								
'Ain Dar	37	1	1	8	7	6	6	66
Shedgum	12	0	1	1	2	2	0	18
'Uthmaniyah	33	0	2	12	2	3	0	52
Hawiyah	0	0	0	1	0	1	0	2
Haradh	0	0	0	7	0	1	0	8
Fazran	0	0	2	3	0	2	0	7
Jauf	0	0	1	0	0	0	0	1
Khurais	0	0	2	11	0	1	0	14
Khursaniyah	5	0	1	0	0	2	0	8
Ma'aqala	0	0	1	0	0	0	0	1
Manifa	0	0	0	6	0	1	0	7
Qatif	9	0	1	0	0	1	1	12
Safaniya	25	0	0	13	0	3	0	41
Stratigraphic	0	0	1	0	0	0	0	1
	<u>210</u>	<u>10</u>	<u>19</u>	<u>75</u>	<u>13</u>	<u>31</u>	<u>19</u>	<u>377</u>

4. Condition of Wells at End of November 1961

- (a) Includes 2 producing gas wells
- (b) Includes 2 abandoned gas wells
- (c) Standing oil well has oil to surface but no surface facilities
- (d) Shut-in oil well is not producing
- (e) Well bore filled with mud
- (f) Abqaiq Well 2 will be produced intermittently as a gas cap test well

(B) Wells not completed:

Well	Drilling	Field Total	Suspended
Abu Hadriya 12	1	1	
Ghawar:			
'Ain Dar 61	1		1
66			1
'Uthmaniyah 38		1	1
Haradh 4			1
Qatif 13			
	<u>2</u>	<u>2</u>	<u>4</u>

5. Refined Products (42-Gallon Barrels - Thousands) month of November 1961

	Input-Output
Ras Tanura Refinery:	<u>7,464</u>
Processed at Refinery	800
Production:	
Gasolines	261
Jet Fuel	427
Kerosenes	1,154
Diesel Oils	4,095
Fuel Oils	135
Others	660
Unfinished Oils	( 68)
Losses or (Gains)	
Total	<u>7,464</u>

6. Stocks (42-Gallon Barrels - Thousands) as of November 30, 1961

Refinery Products:	1,446
Gasolines	290
Jet Fuel	697
Kerosenes	1,121
Diesel Oils	1,799
Fuel Oils	1,100
Others (Including Unfinished Oils)	<u>6,453</u>
Subtotal	
Purchased Products:	-
Aviation Gasoline	15
Lubrication Oils & Greases	<u>6,468</u>
Total	

General Accounting Department  
Analytical and Budget Division  
January 2, 1962

## ARABIAN AMERICAN OIL COMPANY

## CRUDE OIL REPORT

AR-727

Month of November 1961

Country: Saudi Arabia

Barrels of  
42 U. S. Gallons

1. Stocks First of Month	15,926,649
2. Production of Principal Fields:	
Abqaiq	9,798,541
Dammam	1,017,404
Ghawar	17,868,100
Qatif	668,784
Safaniya	7,675,577
Khursaniyah	<u>1,979,486</u>
3. Total Crude Production	39,007,892
4. Natural Gasoline, etc., Mixed with Crude	Qty. Not Determined
5. Other Supply	-
6. TOTAL	<u>54,934,541</u>
7. Processed at Refinery	7,463,697
8. Pipeline Deliveries from Country	11,999,238
9. Water Shipments of Crude from Country	20,385,611
10. Other Shipments	264,442
11. Fuel and Losses	20,155
12. Stocks, End of Month	<u>14,801,398</u>
13. TOTAL	<u>54,934,541</u>

General Accounting Department  
Analytical and Budget Division  
January 2, 1962

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By JCS NARA Date 3/5/02

## ARABIAN AMERICAN OIL COMPANY

## REFINERY REPORT

AR-728

Month of November 1961

Country: Saudi Arabia

	<u>Barrels of 42 U. S. Gallons</u>	
	<u>Input-Output</u>	<u>Stocks at End of Month</u>
1. Processed at Refinery	7,463,697	6,597
2. Natural Gasoline and Other Light Products	Qty. Not Determined	
3. A. Purchased Oil Rerun	-	
4. TOTAL INPUT	<u>7,463,697</u>	
5. Aviation Gasoline	29,610	178,080
6. Other Gasolines	770,371	1,268,367
7. Jet Fuel	260,590	290,414
8. Kerosenes	426,690	696,641
9. Distillates	1,154,197	1,120,517
10. Residual Fuel Oil	4,095,003	1,799,071
11. Lubricating Oil	-	-
12. Asphalt		
13. Miscellaneous	134,849	221,455
14. Unfinished Oils Produced (Net)	659,884	878,835
15. Losses or (Gains)	( 67,427 )	-
16. TOTAL	<u>7,463,697</u>	<u>6,459,977</u>
17. Daily Average Crude Oil Throughput Capacity of this plant:	189,000 Barrels	
18. Fuel Consumption at Plant of Oils Reported Above:		
Residual Fuel Oil	31,845	
Other Oils - Unfinished	367,896	

General Accounting Department  
 Analytical and Budget Division  
 January 2, 1962

DECLASSIFIED  
 Authority 949570  
 By JCS NARA Date 3/8/02

ARABIAN AMERICAN OIL COMPANY  
PETROLEUM MOVEMENT REPORT

AR-729

Month of November 1961

Country: Saudi Arabia

	Barrels of 42 U. S. Gallons	
	Imports	Exports
1. Crude Oil	-	32,577,058
2. Aviation Gasoline	183	13,677
3. Other Gasolines and Naptha	-	511,549
4. Jet Fuel	-	305,262
5. Kerosene	-	376,863
6. Distillate	-	1,304,946 (A)
7. Residual Fuel Oil	-	4,130,112 (B)
8. Lubricating Oil and Grease	3,204	-
9. Asphalt	-	13,118
10. Miscellaneous	-	59,224
11. TOTAL	<u>3,387</u>	<u>39,291,809</u>

(A) Includes 43,546 Barrels Bunker Oil Laden.

(B) Includes 1,115,240 Barrels Bunker Oil Laden.

12. Transporting Companies:

Names of various shipping companies which transported the  
reported above:

Not Available

General Accounting Department  
Analytical and Budget Division  
January 2, 1962

DECLASSIFIED  
Authority 949578  
By JCS NARA Date 3/5/02



ARABIAN AMERICAN OIL COMPANY  
STATISTICAL DATA

AR-724  
Page 1 of 2

Country: Saudi Arabia

1. Crude Oil Production 42-Gallon Barrels During December 1961

Field	Average Gravity °API	Daily Average	Monthly Total	Year-to-Date
Abqaiq	38.2	350,045	10,851,387	127,859,370
Dammam	35.2	35,738	1,107,880	11,801,294
Ghawar	35.2	794,047	24,615,467	257,517,305
Qatif	34.1	14,320	443,932	7,432,932
Safaniya	27.2	299,037	9,270,142	88,079,098
Khurais	-	-	-	-
Khursaniyah	31.3	62,372	1,933,527	15,579,202
Total	34.1	1,555,559	48,222,335	508,269,201

2. Development Wells Completed During Month of December 1961

Well	Oil	Gas	Dry	Observation	Total
'Ain Dar 61				1	1

2A. Injection Wells Completed During Month of December 1961

Well	Gas	Water	Total
			None

3. Exploratory Wells Completed During Month of December 1961

Well	Oil	Gas	Dry	Observation	Total
					None

4. Condition of Wells at End of December 1961

(A) Completed Wells:

(Wells "Completed" does not include wells listed as "Suspended" on Page 2)

Field	Producing	Abandoned Oil Drilling	Standing Oil (c)	Shut-In Oil (d)	Observation	Injection	Total Completed Wells
Abqaiq	63 (f)	3	0	1	0	12	85
Abu Hadriya	0	0	2	7	0	0	11
El Alat	0	0	1	0	0	0	1
Dammam	27 (a)	6 (b)	3	2	1	0	41
Fadhili	0	0	0	1 (e)	0	0	1
Ghawar:							
'Ain Dar	41	1	1	8	3	7	67
Shedgum	12	0	1	1	2	0	18
'Uthmaniyah	34	0	2	12	1	3	52
Hawiyah	0	0	0	1	0	0	2
Haradh	0	0	0	7	0	1	8
Fazran	0	0	2	3	0	2	7
Jauf	0	0	1	0	0	0	1
Khurais	0	0	2	11	0	1	14
Khursaniyah	5	0	1	0	0	0	8
Ma'aqala	0	0	1	0	0	0	1
Manifa	0	0	0	6	0	1	7
Qatif	9	0	1	0	0	1	12
Safaniya	25	0	0	13	0	3	41
Stratigraphic	0	0	1	0	0	0	1
	<u>216</u>	<u>10</u>	<u>19</u>	<u>73</u>	<u>7</u>	<u>19</u>	<u>378</u>

4. Condition of Wells at End of December 1961

- (a) Includes 2 producing gas wells
- (b) Includes 2 abandoned gas wells
- (c) Standing oil well has oil to surface but no surface facilities
- (d) Shut-in oil well is not producing
- (e) Well bore filled with mud
- (f) Abqaiq Well 2 will be produced intermittently as a gas cap test well

(B) Wells not completed:

<u>Well</u>	<u>Drilling</u>	<u>Field Total</u>	<u>Suspended</u>
Abu Hadriya 12	1	1	
Ghawar:			
'Ain Dar			1
'Uthmaniyah 38			1
Haradh 4			1
Khursaniyah 9	1	1	
Qatif 13			1
Safaniya 46	1	1	
	<u>3</u>	<u>3</u>	<u>4</u>

5. Refined Products (42-Gallon Barrels - Thousands) month of December 1961

		<u>Input-Output</u>
Ras Tanura Refinery:		
Processed at Refinery		<u>8,040</u>
Production:	Gasolines	421
	Jet Fuel	279
	Kerosenes	340
	Diesel Oils	1,117
	Fuel Oils	4,703
	Others	133
	Unfinished Oils	1,013
	Losses or (Gains)	34
Total		<u>8,040</u>

6. Stocks (42-Gallon Barrels - Thousands) as of December 31, 1961

Refinery Products:		
	Gasolines	1,347
	Jet Fuel	338
	Kerosenes	622
	Diesel Oils	1,241
	Fuel Oils	1,504
	Others (Including Unfinished Oils)	1,272
	Subtotal	<u>6,324</u>
Purchased Products:		
	Aviation Gasoline	-
	Lubrication Oils & Greases	16
	Total	<u>6,340</u>

General Accounting Department  
Analytical and Budget Division  
February 5, 1962

ARABIAN AMERICAN OIL COMPANY

STATISTICAL DATA

AR-725  
Page 1 of 2

Country: Saudi Arabia

1. Marketing in Saudi Arabia - Quarter Ended December 31, 1961

42-Gallon Barrels (Thousands)

Refinery Products

Gasolines	432
Jet Fuel	14
Kerosenes	172
Diesel Oils	249
Fuel Oils	9
Others	48

Purchased Products Sold

Aviation Gasolines	-
Lubricating Oils and Greases	9
Total	933

2. Imports, Quarter Ended December 31, 1961

42-Gallon Barrels (Thousands)

Aviation Gasolines	1
Lubricating Oils and Greases	8
Total	<u>942</u>

3. Exploration Activities - Quarter ended December 31, 1961

Geophysical Field Parties

Seismograph Party 3 shot east-west continuous reversed refraction lines to map the Jurassic refractor in the rough terrain of the transition zone of the eastern Rub' al Khali east of longitude 52°45'E. Two lines were extended west to 51°30'E. to tie to the work of the other party in the central and western Rub' al Khali.

Seismograph Party 5 shot northeast-southwest continuous reversed refraction lines to map the Jurassic refractor west of longitude 51°00'E. completing the coverage of central and southwestern Rub' al Khali north to 22°00'N. latitude.

4. Structure-Stratigraphic Drilling Operations - Quarter ending December 31, 1961

Structure-Stratigraphic Drill Party 2 completed programmed work in the Niban area of the northwest Rub' al Khali and moved south of Haradh for a single hole. Thence party units were moved into the southern Summan where drilling is continuing on the first of a series of programmed fill-in stratigraphic wells along the western Concession boundary.

Stratigraphic Drill Party 5 completed work on well ST-20 and moved onto location ST-21 in the Abu Bahr area of the northwestern Rub' al Khali. At the close of the quarter drilling at ST-21 was nearing mid-completion.

General Accounting Department  
Analytical and Budget Division  
February 5, 1962

ARABIAN AMERICAN OIL COMPANY  
CRUDE OIL REPORT

AR-727

Month of December 1961

Country: Saudi Arabia

	Barrels of <u>42 U. S. Gallons</u>
1. Stocks First of Month	14,801,398
2. Production of Principal Fields:	
Abqaiq	10,851,387
Dammam	1,107,880
Ghawar	24,615,467
Qatif	443,932
Safaniya	9,270,142
Khursaniyah	<u>1,933,527</u>
3. Total Crude Production	48,222,335
4. Natural Gasoline, etc., Mixed with Crude	Qty. Not Determined
5. Other Supply	<u>-</u>
6. TOTAL	<u>63,023,733</u>
7. Processed at Refinery	8,039,733
8. Pipeline Deliveries from Country	17,098,282
9. Water Shipments of Crude from Country	23,561,184
10. Other Shipments	277,658
11. Fuel and Losses	32,310
12. Stocks, End of Month	<u>14,014,566</u>
13. TOTAL	<u>63,023,733</u>

General Accounting Department  
Analytical and Budget Division  
February 5, 1962

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Authority 949570  
By JCS NARA Date 3/5/02

## ARABIAN AMERICAN OIL COMPANY

## REFINERY REPORT

AR-728

Month of December 1961

Country: Saudi Arabia

	Barrels of 42 U. S. Gallons	
	Input-Output	Stocks at End of Month
1. Processed at Refinery	8,039,733	6,597
2. Natural Gasoline and Other Light Products	Qty. Not Determined	
3. A. Purchased Oil Rerun	-	
4. TOTAL INPUT	<u>8,039,733</u>	
5. Aviation Gasoline	39,511	174,770
6. Other Gasolines	381,693	1,172,272
7. Jet Fuel	278,575	338,203
8. Kerosenes	339,698	621,907
9. Distillates	1,117,410	1,241,065
10. Residual Fuel Oil	4,702,657	1,503,485
11. Lubricating Oil	-	
12. Asphalt		
13. Miscellaneous	133,287	177,717
14. Unfinished Oils Produced (Net)	1,013,241	1,094,504
15. Losses or (Gains)	<u>33,661</u>	<u>-</u>
16. TOTAL	<u>8,039,733</u>	<u>6,330,520</u>
17. Daily Average Crude Oil Throughput Capacity of this plant:	189,000 Barrels	
18. Fuel Consumption at Plant of Oils Reported Above:		
Residual Fuel Oil	30,760	
Other Oils - Unfinished	369,877	

General Accounting Department  
Analytical and Budget Division  
February 5, 1962

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By JTS NARA Date 3/5/02

ARABIAN AMERICAN OIL COMPANY  
PETROLEUM MOVEMENT REPORT

AR-729  
Month of December 1961

Country: Saudi Arabia

	<u>Barrels of 42 U. S. Gallons</u> <u>Imports</u>	<u>Exports</u>
1. Crude Oil	-	40,839,065
2. Aviation Gasoline	339	27,554
3. Other Gasolines and Naptha	-	327,740
4. Jet Fuel	-	225,133
5. Kerosene	-	352,872
6. Distillate	-	911,313 (A)
7. Residual Fuel Oil	-	4,987,593 (B)
8. Lubricating Oil and Grease	3,579	-
9. Asphalt	-	-
10. Miscellaneous	-	<u>143,298</u>
11. TOTAL	<u>3,918</u>	<u>47,814,568</u>

(A) Includes 41,798 Barrels Bunker Oil Laden.

(B) Includes 1,146,112 Barrels Bunker Oil Laden.

12. Transporting Companies:

Names of various shipping companies which transported the  
reported above:

Not Available

General Accounting Department  
Analytical and Budget Division  
February 5, 1962

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By JCS NARA Date 3/8/02

AIR POUCH  
PRIORITY

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(Security Classification)

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FOREIGN SERVICE DESPATCH

246

886a.2553/3-1062

FROM : AmEmbassy JIDDA

DESP. NO.

March 10, 1962

TO : THE DEPARTMENT OF STATE, WASHINGTON.

DATE

REF : CERP, D-14; Embdespatches 237, Febr. 26, 1962 and 62, Aug. 24, 1961;  
Beirut Airgram 52 to Jidda rptd 162 to Dept., Febr. 6, 1962

67 For Dept. Use Only	ACTION	DEPT.
	REC'D	IN F OTHER
	NEA-4	Rm.R.Y INR-5 Rep-1 E-3 AID-11
	3/26	CIA-10 Com-17 OGD-3 INT-7 ARMY-5 NAVY-3

SUBJECT: PETROLEUM: Negotiations for Establishment of a Petrochemical (Urea) Plant in Dammam  
AIR-3 NEA-3

Saudi Petroleum Minister Shaykh 'Abd Allah TARIKI told Assistant Secretary TALBOT and me recently that negotiations were underway with a Dutch firm for the establishment of a urea plant in Dammam. This report summarizes available details concerning this renewed interest on Tariki's part in establishing a petrochemical industry.

Mr. H. J. VAN VLIET, who signs his correspondence as the managing director of "H.V. Codum, Combined Dutch Manufacturers", arrived in Riyadh January 15 to work on this petrochemical project which has occupied his attention intermittently for several years. According to Arabian American Oil Company (Aramco) sources, he made the following requests of Tariki during January discussions:

1. Immediate payment to Van Vliet of approximately SR 100,000 (about \$22,000) to cover promotional expenses that Van Vliet and Codum had incurred during the past three years.
2. Payment of approximately SR 215,000 (about \$48,000) to cover additional promotional expenses and costs of studies to finalize planning for the project before it comes to full realization.
3. A Saudi Government guarantee covering the repayment of the loan capital to be provided from Dutch sources.
4. A Saudi Government guarantee that the sale of stock to the Saudi public would be successful or, if not successful, that the Government would purchase the remaining unsold stock.

At Tariki's suggestion Van Vliet visited the Supreme Planning Board in Riyadh to apply for the Board's support. There he was referred by the Board's Secretary General Raja'i MUSSAINI to its Chief Development Advisor, Mr. Harold FOLK. The latter, after seeing Van Vliet, requested him to present his main points in writing. In his letter, a copy of which has been obtained confidentially from Aramco and is enclosed, Van Vliet explains that his intention is to establish a firm called The "Saudi Arabian Incorporated Company" to manufacture fertilizers and possibly other products. The letter mentions two other Dutch companies (H.V. Stamickart and Messrs. Dutch International Consulting Engineers) as associates in the project proposed for Saudi Arabia. It also mentions the firm of Snodgrass Associates.

WD:Wolle/eh

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Encl. No.  
Desp. No. 246  
From Jidda

Washington, D.C., as consultants on the project. Van Vliet has told Aramco officials that Mr. Folk/about the possibility of Supreme Planning Board assistance. was pessimistic

The visit to Saudi Arabia of Mr. George GIBSON of Snodgrass Associates (see refairplan) is at the request of Tariki who wishes the Snodgrass firm to work with Van Vliet on the fertilizer project. Among the Saudis who are backing the Van Vliet proposal are Shaykh Saleh al-FADL and Mustapha ALISA (the latter a former Director General of the Ministry of Petroleum). If financial and other hurdles are overcome and the new company is formed, Van Vliet has told Aramco, these two persons would join him on the Board of Directors, with one additional director being named by Dutch financial backers and the five remaining seats to be filled by Saudi citizens, each of whom would be expected to contribute SR 100,000 (about \$22,000) to the project. Tariki has expressed to Van Vliet his insistence that the proposed company bill its ultimate consumers directly, i.e. that it be a fully integrated company controlling its own marketing.

Van Vliet is reported to have visited officials of the Saudi Government Railroad to explain to them the transportation requirements of the fertilizer plant; apparently the project would involve extension of the rail line to the plant site.

Aramco Vice President L. M. SNYDER was summoned to Riyadh January 28 by Tariki to discuss this petrochemical project. The minister berated Aramco for its past unwillingness to participate in a project of this kind, recalling that the Aramco Board at its May 1961 meeting had decided it could not support the Van Vliet project because the analysis had shown the rate of return was only 5 per cent. Mr. Snyder emphasized to Tariki that the company's main concern was the problem of selling the product from the plant, in view of the highly competitive market for fertilizer and the recent construction of several large plants in the Eastern Hemisphere. As their conversation proceeded, Tariki and Snyder reviewed Aramco's past efforts to develop projects that would use surplus natural gas and, specifically, the company's study of the Van Vliet proposal. Snyder reminded Tariki that Aramco had at one time undertaken a detailed engineering and financial analysis of this project jointly with representatives of the Amsterdam Bank and the Dutch State Lines, and had come to the conclusion that the project as conceived was not sufficiently attractive to warrant participation. This analysis had concluded that the cost would be about \$26,750,000 for the plant designed to produce 300 tons per day of urea prills and that the rate of return would be approximately 5 percent based on a 90 percent operating factor and a 15 year write-off of the capital investment. At that time the vice president of Dutch State Lines had said that his organization would consider about 15 percent to be the minimum rate of return attractive for such a project.

Tariki told Snyder that he was considering trying to persuade Saudi authorities to release the unused funds accumulated in the Pension Fund of Saudi Government employees for use in this project. He indicated that the present accumulation in this fund was about SR 50-60 million (about \$11-13 million).

COMMENT:

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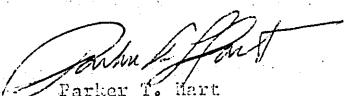
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Disp. No. 246  
From Jidda

COMMENT: There is some informed speculation that Tariki's renewed interest in a petrochemical venture at this time is caused by his anxiety to record a personal achievement and thus strengthen his position in the Government. Sources holding this view maintain that Shaykh 'Abd Allah is on none too secure terms with either the King or the Crown Prince and that this situation, compounded by minor differences with Mr. Folk and occasional press attacks on his petroleum administration, makes it imperative for him to score a popular success such as establishment of a major new industry whether or not its economic future is assured. Informed Jidda banking sources, including the Netherlands Trading Society branch manager, have consistently expressed extreme doubt that Van Vliet could ever obtain sufficient private financial backing to make his petrochemical project a reality.

It will be recalled that Tariki took the initiative in July 1961 in exploring petrochemical possibilities with another group of European industrialists (Embdespatch 62). To the Embassy's knowledge, nothing has come of those discussions, during which Tariki is reported to have made the still unexplained remark that he could not rely on American firms to assist him in petrochemical ventures.

Mr. Harold Folk, Chief Development Advisor of the Saudi Supreme Planning Board, told me recently that the petrochemical field in Saudi Arabia could only be broken into gradually on a small scale and with the assistance of an experienced foreign firm with established markets.

The Embassy does not recommend at this time any specific steps to promote petrochemical investment in this country. In any event, American companies with potential interest in this field presumably have long since had their attention called to Saudi Arabia's inherent possibilities, both by Arabian American Oil Company publicity about its surplus natural gas supply and by private oil industry periodicals.

  
Parker I. Hart

Enclosure: *att*  
Copy of letter dated January 16, 1962.

cc: Dhahran  
Dept Pass: The Hague, Amsterdam, Rotterdam

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Desp. No. 246  
From Jidda

COPY

Riyadh, 16th January 1962

N. V. CODUM  
ROTTERDAM

Mr. Harold Folk  
% Supreme Planning Board  
Riyadh

Dear Mr. Folk:

I herewith confirm our interview of this morning during which we discussed to come to the erection of a petro-chemical industry in the Dhahran area. We told you regarding our activities during the last 3 years and gave you a copy of the financing scheme as prepared by the Amsterdamse Bank N.V. In order to solve the problems arisen in the beginning of 1961 we propose to execute during the present stay in Saudi Arabia the following steps:

1. To found the Saudi Arabian Incorporated Company, which is going to explicit the chemical industry.
2. To obtain in writing from the Saudi Arabian Monetary Agency their willingness and ability to guarantee in favor of the Netherlands Government the repayment of the export credits from Holland.
3. To obtain in writing from the Government of Saudi Arabia (the Ministry for Petroleum and Mineral Resources) a guarantee that the issue of shares on the Saudi Arabian Market will be successful and that the Government will buy the remaining shares if the issue might not be successful.
4. To have a preliminary adjudication amongst the suitable contractors in the East Province to obtain the actual building prices for foundations, roads, etc. (per unit).
5. In the meantime my office in Rotterdam will arrange the same in Holland for the machinery in cooperation with N.V. Stamicarbon.
6. To make the definite contracts between the Government and N.V. Codum, between N. V. Codum and the new company and between this company and Stamicarbon.
7. To investigate which articles could be produced in the factory besides the originally planned fertilizers. Our associates Messrs. Dutch International Consulting Engineers at Amsterdam are already working for insecticides and detergent powder.
8. Investigating regarding labor available in East Province and estimation of the wages to be paid, as well as living allowances, etc.

After executing these 8 items I am sure and got the confirmation from other sources, a.o. from Mr. Gibson of Messrs. Snodgrass Associates, Washington, D.C., that the net annual return will again be on an acceptable level. As the way of

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From Jidda

financing this project is clear to us, definite arrangements with the financiers can be signed soon.

As I told you the Board of Directors of my company did not allow me to do further steps without payment for my efforts. The Ministry for Petroleum and Mineral Resources paid already my ticket to Saudi Arabia, however, I need a living allowance which I for the moment estimate at S.R. 5000,- monthly, as well as payment of my travel expenses. I was informed that your Board would have funds for this purpose. Therefore this is an application for these payments.

The total fee for the promotion of this project has been fixed from the beginning of Dfl. 250.000,- which amount of course is due by the new S.A. Inc. Comp. However, as it will take 6 to 8 weeks until this company has been founded and an initial capital is available, I should like to receive an advance-payment of Dfl. 80,000,- which is approx. the total amount of the expenses of my company for 5 trips to Saudi Arabia, many trips inside Europe and the time spent until now. This amount is, of course, later to be settled between you and the new company.

Trusting that you will support my efforts to come to the erection of this petro-chemical industry, which is of great interest for this country, I remain,

Yours faithfully,

/s/ H. J. Van Vliet

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FOREIGN SERVICE DESPATCH

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8868.2553/3-1262

FROM : Embassy JIDDA

248  
DESP. NO.

March 12, 1962

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : Embdespatch 411, June 22, 1961; Kuwait despatch 293, April 9, 1961  
*Saudi Cyprus as requested on page 2 - (5)*

For Dept. Use Only	ACTION REC'D	DEPT. IN F O OTHER	DEPT. IN F O OTHER
67	NEA-4	RM-R-2	Rep-1 INR-5 E-3 AID-11 EUR-3
3/27	COM-17	INT-7	TAR-2 OSD-3 ARMY-5 NAVY-3
			NSA-3

SUBJECT: SAUDI ARABIA-KUWAIT NEUTRAL ZONE OFFSHORE BOUNDARIES: Agreement Reported on Sovereignty Over Islands of Qarau and Umm al-Baradin

During a January 26 conversation in Riyadh which was devoted primarily to petrochemical questions, Saudi Petroleum Minister Shaykh Abd Allah TARIKI told Aramco Vice President L. M. SNYDER that the Saudi Government had agreed with Kuwait on the issue of the ownership of the small islands of Qarau and Umm al-Baradin offshore from the Neutral Zone. Tariki said the two countries had agreed that Kuwait should have sovereignty over the islands but that Saudi Arabia should receive half of the proceeds going to the Kuwait Government from any oil produced in the territory involved. Tariki added that the question of the offshore boundaries in the Neutral Zone was still under discussion, and intimated that there would be considerable difficulty in resolving the northern offshore boundary in particular. Mr. Snyder made a suggestion that the governments involved in this boundary dispute should agree to have some expert international commission convened to establish the actual shorelines and then establish the territorial boundaries whereupon Tariki expressed the view that the entire Arabian Peninsula should be treated as one oil province with the oil allocated fairly between the various governments.

The source of this information is a confidential memorandum dated February 4 written by Mr. Snyder concerning the meeting. A copy was made available by the Aramco representative in Jidda. The portion of this memorandum which concerns this subject is reproduced below:

"Tariki asked me whether I had heard anything about Aminoil working on the small islands offshore of the Neutral Zone. I said that I had not heard of any work being done, although I understood that the Kuwait Government had approved Aminoil proceeding with work at any time on these islands. Tariki said that SAG had agreed with Kuwait on the issue of the ownership of these Islands. He said that Kuwait had argued these Islands had always belonged to Kuwait and that they had sovereignty over them. Tariki said that SAG representatives told Kuwait that SAG was not interested in sovereignty over these small Islands but suggested that they settle the matter in the same way Saudi Arabia had settled sovereignty of the Abu Sa'fah area with Bahrain, i.e., that Kuwait should have the sovereignty, but that Saudi Arabia should receive half of the proceeds going to the Kuwait Government from any oil produced in the territory involved. Tariki said that Kuwait had agreed to this proposal.

"Tariki said that they were still discussing the offshore boundaries in the Neutral Zone. I told him yes we were most anxious for them to settle

WDWolle/eh

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Desp. No. Jidda  
From

and mark the boundary between Safaniya and Hafqi. I told him that the Japanese were drilling much closer to where we understood the boundary to be than Aramco and I did not think this was fair to either Aramco or SAG. I told him that Aramco was much more conservative and cooperative in following the wishes of SAG. Tariki replied that the southern boundary of the Neutral Zone had been pretty well agreed upon, but that the northern boundary was very much in dispute. He said that Kuwait wanted to use the islands in computing the location of the northern boundary and this would transfer either 700 sq. kilometers or 700 sq. miles from the Japanese concession to Shell's Kuwait concession. He went on to say that on the other hand if Kuwait used the same method for computing the boundaries for determining the median line of the Arabian Gulf, the median line would be located about two-thirds of the way between Saudi Arabia and Iran and that Farsi, Arabi, and the other areas in the middle of the Gulf would all belong to Saudi Arabia. He said, however, that the Iranians did not agree with Kuwait and that the Iranians would never agree to that (meaning the location of the median line of the Arabian Gulf).

"I told Tariki that I thought the Governments involved in the boundary dispute in the Gulf should agree to have some expert international commission go in and establish the actual shore lines around the Gulf and then establish the boundaries between the territories belonging to the various countries. I said that the longer the boundary settlement was delayed, the more difficult it would become to settle because of growing oil discoveries and exploration work being done here and there. Tariki said that he thought the whole Arab peninsula should be treated as one oil province and the oil allocated between the various governments in some fair manner. He said take the big Murban field for example and other structures located close to it. There is practically no population in the area and the income from the oil from that area would make rich men of just a few people and that there are many, many poor people in other parts of the Arabian peninsula who would get nothing."

COMMENT: This report of Kuwaiti-Saudi Arabian agreement concerning sovereignty and oil rights over the islands of Qarau and Umm al-Baradin is a surprise development, as it contradicts the accounts of last summer (see refdespatches) that the Saudis were determined to insist on joint ownership of these islands. It is not known at present whether the agreement of which Tariki spoke to Mr. Snyder has been placed in writing or formalized in any way.

  
Parker T. Hart

cc: Amconsul DHAHRAN  
AmEmbassy KUWAIT

Dept pass LONDON, BEIRUT, BAGHDAD, BASRA, TEHRAN

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INCOMING TELEGRAM

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Action  
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Control: 19278

Rec'd: MAR 28, 1962  
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Info

FROM: DHAHRAN

SS

TO: Secretary of State

SR

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NO: 265, MARCH 28, 2 PM

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INT

TRSY

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ACTION JIDDA 342, INFORMATION DEPARTMENT 265, KUWAIT 28.

1. ARAMCO PRESIDENT BARGER, ACCOMPANIED BY SENIOR VICE PRESIDENT BROUGHAM, MANAGER GOVERNMENT RELATIONS MCDONALD, AND RIYADH REP METZ, MADE TRIP TO RIYADH MARCH 26 FOR PURPOSE BECOMING ACQUAINTED WITH NEW CABINET MINISTERS. WITH EXCEPTION PRINCE FAYSAL, AND HUSAIN ARAB, BOTH OF WHOM WERE OUT OF TOWN, ARAMCO GROUP HAD OPPORTUNITY TALK WITH ALL NEW MINISTERS. FOLLOWING INFORMATION AND IMPRESSIONS PROVIDED TO CONGEN TODAY BY MCDONALD MAY BE OF INTEREST:

A. GENERALLY, NEW CABINET SEEMS TO BE IMPROVEMENT OVER OUT-GOING ONE. NEW MINISTERS WERE PLEASANT AND FRIENDLY, AND APPROACH NEW JOBS WITH QUIET CONFIDENCE WITHOUT IN ANY WAY MINIMIZING DIFFICULTIES.

B. ONLY MINISTER WHO SEEMED POSSIBLY OVERWHELMED WITH NEW RESPONSIBILITIES, AND PERHAPS BELOW GENERAL LEVEL OF COMPETENCE, WAS EDUCATION MINISTER HASAN IBN ABD ALLAH IBN AL-SHAikh. HE IS, OF COURSE, MEMBER OF WELL-KNOWN STRICTLY ORTHODOX WAHABI FAMILY, AND IT IS NOT CLEAR WHAT POLICY HE WILL FOLLOW IN TERMS EDUCATION. ONE CLUE WILL BE WHETHER GIRLS EDUCATION IS MOVED FROM OFFICE OF MUFTI TO EDUCATION MINISTER. SUCH MOVE WOULD BE CLEAR INDICATION OF PROGRESSIVE TACK.

C. BARGER REMINDED FINMIN MUSAAD IBN ABD AL-RAHMAN THAT NEW ARAMCO BOARD OF DIRECTORS SCHEDULED TO BE ELECTED MAY 1. FAILING ACTION BY SAG TO PUT FORWARD NEW NOMINEES, HAFIZ WAHBA

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